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The Conference Board

Report Number 948

Campaign Finance Reform

Highlights are:

- *action near on campaign finance reform*
- *role of Federal Election Commission evaluated*
- *reformers urge a streamlining of FEC procedures*
- *impact of campaign finance reform on business*

About The Conference Board

Founded in 1916, The Conference Board's twofold purpose is to improve the business enterprise system and to enhance the contribution of business to society.

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Campaign Finance Reform

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From the President

The debate over what constitutes fair and effective election campaign funding law tends to focus on specifics. . .spending limits versus public financing, or the future of political action committees, for example. Except for some experts who closely follow reform developments in the Congress and elsewhere, the arguments pro and con can be confusing at best.

Any move for reform should ensure that no individual's or group's interests are written out of the equation before the political contest begins. But, as with most issues, effective long-term change is only possible when reformers objectively scrutinize the foundation of the system. In the case of campaign finance, the foundation is the Federal Election Commission. This report therefore focuses on the structure and authority of the Commission and its mandate, and on the broader aspects of campaign reform efforts.

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PRESTON TOWNLEY
President and CEO

Author's Note

Just before adjournment for August recess, the Senate and House passed their versions of proposed campaign finance legislation. The measure must go through conference proceedings, however, to hammer out a compromise bill, then pass through the President's office for signing. Because some of the provisions of the Senate's proposal are opposed by the Bush Administration, most experts expect a protracted fight in conference and a possible Presidential veto.

Introduction

> "Over 2000 years ago in ancient Greece, a first attempt at campaign reform was made. The great philosopher Plato in his classic work, *The Republic*, proposed a radical restructuring of the Athenian state. And whom did the philosopher suggest should run the Athenian state? None other than philosopher-kings. Plato proposed a reform so that men like him would take command. Thus one of the oldest principles of election law reform was first illustrated: if allowed to design chicken coops, foxes make notoriously poor architects."[1]

The effort to curb the intertwining of money and politics began at the end of the nineteenth century. (See exhibit on page 8 for a history of campaign finance reform measures.) Pressure on lawmakers to revise current campaign finance law has increased in the aftermath of the 1988 Presidential campaign. Record-breaking expenditures and negative advertising were the basis of most complaints. But other factors fuel the current push toward reform. These include a record 98% of incumbent Congressmen returned to office this past election year and troubling ethics questions. Voters and political leaders on both sides are expressing frustration and disappointment with the system as it has evolved in recent years.

The business community has joined in the litany of complaints. Business leaders resent arm-twisting by lawmakers; persistent and too-early requests for money; leadership PACs which enable lawmakers to collect and then contribute moneys to other members; and requests for participation in inappropriate activities, such as providing company planes to candidates and donating facilities and equipment to conventions. Business is leery of these demands and wants clear guidelines.

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[1] William C. Oldaker, "Of Philosophers, Foxes, and Finances: Can the Federal Election Commission Ever Do an Adequate Job?" *Annals of The American Academy of Political Science and Social Science*, July 1986, p. 133.

History of Campaign Financing Legislation

1896 The election of William McKinley is financed primarily through funds from the business community.

1907 Theodore Roosevelt recommends public financing of federal elections and a ban on private institutions. Congress passes the Tillman Act to prohibit business groups from making contributions to federal candidates.

1925 The Teapot Dome Scandal of the 1920s leads to further reform. Congress extends campaign reform legislation with the passing of the Corrupt Practices Act, requiring disclosure of campaign finances and placing limits on contributions. Lack of specificity makes the act difficult to enforce. In fact, the act becomes noteworthy by the extent to which it is ignored.

1936 Organized labor makes its first significant effort to influence elections with campaign expenditures.

1940 Congress passes the Hatch Act restricting political activities by federal employees.

1943 Congress passes the Smith-Connelly Act, barring unions from making direct contributions to federal elections from union treasury funds. The section was repealed in 1948.

The Congress of Industrial Organizations (CIO) establishes the first political action committee.

1947 Congress passes the Taft-Hartley Act making permanent the ban on contributions and expenditures by unions and corporations in general elections. Later these limitations are extended to primaries and conventions.

1955 Labor PACs flourish as union leaders begin to directly solicit employees for contributions instead of depending on union dues.

1960 Trade and professional PACs gear up. Diverse groups like physicians and dairy farmers form PACs. Relatively few corporations yet have PACs on either the state or the federal level.

1971 Ambassadorial appointments as rewards for major contributions, the lack of enforceable reporting requirements, and an inability to enforce limits on contributions leads to the passage of the Federal Election Campaign Act (FECA). The Revenue Act of 1971, a companion piece of legislation providing funding for presidential campaigns, is passed as well.

1972 Congress adopts the FECA, a more comprehensive disclosure law. The act also establishes public financing for presidential candidates in the general election.

1974 The Federal Election Commission is constituted by Congress in the amendments of 1974 (P.L. 93-443). The amendments require full identification of contributions, disclosure reports by members of Congress and candidates, and place limitations on total expenditures for primary and general elections.

The dawn of the "modern" PAC era begins. There are about 600 PACs of all varieties. Prior to the FECA legislation (pre-1972) there were about 90 corporate PACs. By 1984, that number will climb to 1,600.

1975 The first six commissioners are appointed: two by House Speaker Carl Albert, two by Senate President Pro Tempore James Eastland, and two by President Gerald Ford.

1976 This method of appointments is declared unconstitutional in the Supreme Court's *Buckley v. Valeo* decision. New provisions under the FECA amendments of 1976 (P.L. 94-283) now require Commissioners to be appointed to six-year staggered terms by the President with the consent of the U.S. Senate. It limits combined contributions of individuals to both PACs and the national parties and requires PACs to keep accurate records of receipts and expenditures. But the decision strikes down limits on independent expenditures and provisions regulating spending on congressional campaigns.

Buckley v. Valeo also held that limiting what wealthy individuals can spend on their own races is an infringement of free speech. Now groups and individuals are allowed to spend as much money as they want in support of, or in opposition to, a candidate as long as those expenditures are not held to be public financing.

Congress does not disturb the public disclosure and public financing provisions of the existing federal election laws.

1976 Congress passes amendments to the act to conform to the Supreme Court's decision in *Buckley v. Valeo* and to ratify the FEC's decision in the SUNPAC case.

1979 Congress halts the practice of random audits of candidates' expenses. The FEC now reviews records only after finding "reason to believe" a violation has occurred. Congress, convinced by studies and experience that the 1974 amendments had discouraged citizen and party participation, adopts a new set of amendments.

The 1979 Amendments establish the distinction between "hard" and "soft" money. Voter registration and "get out the vote" activities on behalf of presidential candidates are exempt from expenditure and contribution limits. This exemption also applies to materials distributed by volunteers.

1984 Common Cause petitions the FEC to address the soft money problem and to find that all money spent on elections, including state elections, must be raised under FECA.

1986 The commission rejects Common Cause's petition. Common Cause files suit in federal court and a decision is handed down requiring the FEC to reconsider its regulations.

1987 U.S. District Judge Thomas Flannery agrees that FECA only applies to federal elections but orders the FEC to revise its rules to ensure that state parties are given sufficient guidance on how to allocate expenditures between federal and non-federal elections.

1988 No revision occurs.

1989 No new legislation is passed.

The Federal Election Campaign Act

The purpose of the 1971 Federal Election Campaign Act (FECA)[2] is to regulate the moneys contributed to campaigns for the U.S. House of Representatives, the U.S. Senate and the office of the President, including primaries and other parts of the nominating process. It also defines the extent to which U.S. corporations and individuals may participate in federal election campaign activities and what form that participation will take.[3]

Scope of the Act

The three principle areas covered by the act are:

1. Disclosure of the sources and uses of the various funds supporting candidates for federal office;
2. Limits on the amounts of contributions; and
3. Public financing of the presidential election process.

The FECA is administered and enforced by the Federal Election Commission (FEC), whose actions are governed by the Code of Federal Regulations.[4]

Another set of regulations—the Presidential Election Campaign Funding Act[5]—deals with definitions of candidates, contributions, detailed record-keeping required for reporting contributions, and preservation of the various records on campaign contributions. Subchapters of the act[6] deal with everything from the powers of FEC commissioners to various ways in which regulations will be enforced and information disclosed.

Who Is a "Candidate?"

An individual becomes a candidate when he or she raises and/or spends more than $5,000 per year to influence his or her election to a federal office. One can also become a candidate by authorizing another person to raise or spend money. It is not impossible, however, for committees to be formed without the "authorization" of the candidate and to spend considerable sums of money that will ultimately benefit the election of the candidate once that person is officially declared a "candidate."

When Does a Group of Contributors Become a Political Action Committee?

The FECA requires that a committee, club, association or other group of persons becomes a political committee once it receives contributions—from its members or other sources—or makes expenditures in excess of $1,000 in a single calendar year to support one or more federal candidates.

"Separate" funds of corporations, unions or other membership organizations can also become political committees regardless of the amount of their campaign activity. The political party, of course, almost automatically becomes a committee since it makes contributions or expenditures in excess of $1,000 per year, and most often receives contributions exceeding $5,000 a year. However, the law does make special provisions for political party committees.

Both the contributor and the committee to which an individual may contribute are legally responsible for making sure that the contribution does not exceed the federal limits. The individual cannot abdicate such a responsibility to a political committee.

Once a candidate for a federal office becomes a candidate—that is, when the campaign activity exceeds $5,000 in either contributions or expenditures —he or she must designate a Principal Campaign Committee. The candidate then files a statement of candidacy with the FEC. The committee (which can support only one candidate) must file a Statement of Organization with the FEC within ten days after its designation.

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[2] Passed in 1971 and revised in 1974 (following the abuses revealed by the Watergate Scandals), 1976, 1977 and 1979.

[3] These directives may be found in the Code of Federal Regulations (CFR) II CFR Ch I. Sections 114.3-12 (January 1, 1988 Edition).

[4] Title II—Federal Elections (IICFR)

[5] Contained in Title 2 of the U.S. code, Chapter 14, Subchapter 1, occupying 58 pps.

[6] Sections 431 through 455

It should be noted that a candidate, through his or her personal campaign committee, can contribute to the campaigns of other candidates. The committee can contribute $1,000 to each campaign in each election.

Defining Contributions

Contributions are most often made in the form of checks. In a few cases, cash may be given as long as it does not exceed $100 per year, per candidate. The law requires, however, that "anything of value" given to influence a federal election be considered a contribution. Therefore, the donation of office machines, furniture, mailing supplies, etc., is an "in-kind" contribution and is valued at the usual and normal charge for such a product. In the same manner, if individuals donate paid services such as might be provided by a pollster or printer, they have made an in-kind contribution in the value of those services provided. If the service provider sells its service to a candidate or committee at less than fair market value, the difference between what they would have charged, and what they actually charged, is counted as a campaign contribution.

Fundraising dinners and benefits are a popular way to raise funds for a candidate. The act requires that individuals who support these events report the full purchase price for a fundraising ticket. For example, if a ticket for a fundraising dinner costs $100 and the actual cost of the meal would be valued at $30, $100 must be recorded as the contribution, not $70.

In addition to cash contributions and donations of paid services, individuals may also volunteer their personal services. They may contribute any amount of time as long as the time donated is their own and not part of the time they spend on a salaried job. In other words, employers' time may not be used for voluntary services. There is no limit on the personal time that an individual may contribute to a campaign.

Individuals may also contribute certain expenses which are not reimbursed. For example, they can travel on behalf of the candidate and spend up to $1,000 during both the primary and general election campaigns in travel expenses. They can also spend an additional $2,000 for travel on behalf of the candidate's party. As expected, these volunteers can also hold various receptions in their homes, houses of worship or local community facilities, all for the candidate, and can spend up to $1,000 for food, beverage and related expenses. If they hold a reception for the benefit of the candidate's party, they can spend up to $2,000 each year for such expenses.

Corporate participation is clearly and narrowly defined. Some employees, stockholders or union members may use their organization's facilities (offices, mailing, or phones) in connection with volunteer activities conducted on behalf of a federal candidate. This activity must be conducted during off hours; if it exceeds the "incidental use" of the facilities, the owners of the facilities must be reimbursed for the costs. In general, use of such facilities for more than one hour a week or four hours a month will require reimbursement to the corporation or union for the usual and normal rental charges for such a facility. The reimbursement will, of course, be considered a contribution from the individual or committee and counted against the contribution limits.

Some candidates, faced with the considerable costs of mounting a campaign, may borrow money from supporters. But if you lend money to a candidate, or a political committee, you have made a contribution in that amount, even if you charge current interest rates on the loan. The outstanding amount of the loan counts as a contribution and must be recorded against the contribution limits provided in the act. When the candidate repays part of the loan, that decreases the amount of the contribution and the lender may then increase—if they wish—contributions up to the limit. Some candidates may seek bank loans for their campaign costs and, in order to guarantee the loans, ask supporters to endorse or cosign the loans. Endorsements and guarantees are also considered contributions and the endorsers and guarantors are equally liable for the purchase of the loan.

Primary Campaigns

Federal law now provides for partial funding of the campaigns of presidential primary candidates in the form of a matching payment system. The U.S. Treasury will match up to $250 of an individual's total contributions to an eligible candidate. In order for candidates to be eligible, they must have raised more than $5,000 in at least 20 states, that is, a total of over $100,000. Although individual contributors may contribute up to $1,000 to a primary candidate, only a maximum of $250 per individual can be applied towards the $5,000 threshold in each state. In other words, the candidate must come up with at least 20 individual contributors in each state or a total of 400 contributors overall.

In order for the candidates to receive their moneys, they must agree in advance to limit campaign spending during the primary to a total of $10 million plus a cost-of-living adjustment (COLA) to the present year. This adjustment is calculated by the Labor Department using 1974 as the base year. In 1987, for example, the COLA would have brought the spending limit to $22.2 million. The primary candidate must also agree to limit campaign spending in each state to $200,000 plus the COLA as previously described. In addition, candidates must spend no more than $50,000 of their own funds on the campaign.

General Elections

The final presidential nominee, as nominated and certified by the national political party at its annual convention, is eligible for a public grant of $20 million plus the cost-of-living adjustment—$46.1 million each in 1988. To be eligible to receive these U.S. Treasury funds, the candidates must agree to limit their spending to the amount of the grant and not to accept private contributions for the campaign. There is, however, an exception: private contributions can be accepted if they are set up in separate accounts and are used to pay solely for legal and accounting expenses that are incurred in complying with provisions of the federal campaign finance law. There is no limit on these kinds of expense reimbursements. The candidates may also spend up to $50,000 of their personal funds; none of these funds are counted against overall campaign spending limits.

FECA also permits individuals to make contributions of up to $20,000 a year to the national party committee and $5,000 a year to a state or local committee. Total contributions by such individuals to federal elections may not exceed $25,000 a year. (In other words, they could not contribute $5,000 to 50 different state party committees.)

Prohibited Contributions

Certain contributions are explicitly prohibited by the act. These include:

- —Funds derived from the treasuries of corporations, national banks and labor organizations
- —Contributions from firms or individuals who are government contractors (these can, however, set up PACs)
- —Contributions from foreign nationals who are not permanent residents of the U.S.
- —Contributions of cash in excess of $100 per campaign period
- —Contributions given by one person but made in the name of another person

It should be noted, however, that spouses and employees of federal government contractors may make contributions from their personal funds. As noted, corporations and individuals under contract to the federal government and the sole proprietors of businesses doing business with the federal government are prohibited from making such contributions.

In some instances, a political committee may receive a contribution which may be in excess of the limits or from a source prohibited from contributing (e.g., federal contractor, foreign national). In such instances, the act requires that the committee either immediately return the contribution to the donor, or deposit it in a segregated account and determine within 30 days whether the contribution is legal. The committee must obtain evidence in writing that the contributing source is providing a legal contribution. If this cannot be confirmed, the contribution must be refunded.

Contributions by Non-profit Corporations

Some non-profit corporations, formed to promote various ideological causes, have been exempted from the act's prohibition on corporate expenditures. In the 1986 Supreme Court decision, *Massachusetts Citizens for Life* v. *FEC*,[7] the Court allowed the Massachusetts group to make political expenditures. Other groups have attempted to go the route of the Massachusetts Citizens for Life but with little success. In *United States Defense Committee* v. *FEC*, the U.S. District Court for the Northern District of New York found that the Massachusetts principles did not apply because in order for a non-profit organization to be eligible under the Massachusetts guidelines, it must have a policy of not accepting contributions from either for-profit corporations (which are flatly prohibited from making campaign contributions) or labor organizations. The United States Defense Committee had received donations from corporations which were members of the Committee, and thus they were prohibited under the general stricture against corporate-based contributions. This case was later annulled in the Court of Appeals on state-federal jurisdictional grounds.[8]

Disclosure Requirements

A principal purpose of the FECA was to provide for public disclosure of financing. It was thought that knowing who gave money to candidates, and how much they contributed, would act as a brake on undue influence. Thus, the act requires that an individual who becomes a candidate for federal office, as well as any group or organization which becomes a political committee and supports federal candidates, must register and file periodic disclosure reports on their campaign finance activities with the Clerk of the House, the Secretary of the Senate or the FEC itself. (From a practical standpoint, most file only with the FEC.) In addition, these individuals or committees must file with the Secretary of State, or equivalent state officer, in those states where the nomination or election of a particular candidate is sought.

All campaign finance reports filed by individuals and political committees are available for inspection, review and copying at the FEC. The commission maintains a complete set of records from 1972 to the present date. Each state, usually through its Secretary of State, also makes available to the public the reports of political committees active within the state.

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[7] Massachusetts Citizens for Life, Inc. v. FEC 589 FSUPP646 (d.mass 1984 7692d 13 (First Circuit, 1985) 479 U.S. 238 (1986)

[8] 861 F.2d. 765

As a rule, the FEC tries to make reports available to the public within 48 hours of their receipt by the commission. These reports contain detailed information on all contributions and expenditures in excess of $200, as well as the debts and obligations owed to, or by, the candidate or committee. In addition, the commission receives personal finance reports from candidates for the offices of President and Vice President, as required by the *Ethics in Government Act of 1978*. Incumbent office holders are not required to file with the FEC but they do file statements with Congress. Non-incumbent candidates, under new ethics regulations, must file ethics statements with the FEC.

Independent Expenditures

Independent expenditures are expenditures made to advocate the election or defeat of a specific candidate without either consultation or cooperation between the spender and the candidate or the candidate's campaign organization. These funds are often used to sponsor advertising on behalf of, or against, a candidate's background or principles. The most problematic aspects of independent campaign expenditures are accountability, i.e., tracking the amount of expenditures by a given group and what constituencies the group represents; the workability of the term "independent"; and the equality such expenditures may or may not provide in publicly funded elections.

Individuals making these expenditures must place a notice on all forms of communication (e.g., the billboard, leaflet, TV ad) explicitly stating that they paid for its costs and that it was not authorized by the candidate. They must also file with the FEC when the total amount of such independent expenditures exceeds $250 per individual, or organization, in a single year.

Unauthorized Committee

An unauthorized committee is a group of persons who are soliciting and expending funds for the election—or defeat—of a candidate without authorization by the candidate or the candidate's political committee. These committees are not permitted, under the law, to "include the name of any candidate in its [organization's] name." Nonetheless, some of these committees are able to evade this prohibition by excluding the name of the candidate in their official name, while simultaneously carrying out other fundraising "projects" using the candidate's name. Typically, the name of the candidate will appear prominently on the letterhead and within the text of materials produced by such unauthorized committees. The fine print for such letterheads or printed material may contain a disclaimer, allowable under the law, but this has not proved to be an adequate deterrent.

When Does the Contribution Count?

Generally, unless otherwise designated, if a contribution is made prior to the election, the contribution counts in the annual limit for the election year. If a contribution is made to a candidate the year after the election and is designated to pay off campaign debts incurred during the election, the contribution counts against the annual limit of the election year.

In a test case to determine the parameters of the limits of contributions applied after an election, the U.S. Court of Appeals in *Ted Haley Congressional Committee* v. *FEC*[9] reversed a lower court decision and ruled that the money given or loaned after an election, for the purpose of retiring campaign debts, must be counted as contributions made during the election year.

However, if a contribution is made to a party committee, or to a PAC, the contribution counts against the annual limit for the year in which the contribution is made, so long as it is not earmarked for a specific candidate.

Joint contributions by husband and wife are counted as individual contributions, thereby doubling the limit. Both persons must sign the check, or an attached statement, indicating they are each contributing to the candidate. Minors may also contribute as long as these children, under age 18, "knowingly and voluntarily decide to contribute." But the contribution must be money from the child's own resources (e.g., from a trust fund or savings account held in the child's name).

Going Out of Business

The act allows a political committee to terminate its operations and go out of business when it can certify to the FEC that it will no longer solicit or receive contributions or make any disbursements on behalf of the candidate or in the settlement of debts incurred in the campaign.

Some critics have suggested that the "settlement of debts" may provide a loophole for certain committees to receive unreported contributions. In effect, if these debts are settled at less than face value, the lending party may be making a significant contribution to the federal candidate. The FEC notes in its annual report that "the amounts involved are frequently substantial and the creditors are often corporate entities." The FEC would like Congress to clarify the limitations on these contributions in order to determine whether or not the settlement of debts actually constitutes a disguised contribution.

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[9] Ted Haley Congressional Committee v. FEC, 654 F.Supp. 1120 (W.D. Wash. 1987, Rev'd, 852 F2d 1111 (9th Cir. 1988)

The Federal Election Commission

The structure of the FEC places it outside the normal model of an independent regulatory agency. There are six commissioners, appointed to six-year staggered terms by the President, with the consent of the Senate. No more than three members of the commission may be affiliated with the same political party, thus providing ample opportunity for deadlocked votes. In addition, the law requires four votes for the commission to do anything. The absence, illness, or abstention of two or three commissioners can effectively block all action.

Originally, commissioners were appointed two each by the Speaker of the House, the President Pro Tempore of the Senate, and the President of the United States. The Supreme Court ruled this method unconstitutional in the 1976 *Buckley v. Valeo* decision, saying that the method of appointment violated the separation of powers doctrine. The law was subsequently amended and the six commissioners are now appointed by the President with consent of Congress.

In December of each year, the six commissioners select one of their number to serve as chairman and one to serve as vice chairman for the following calendar year. The FECA requires that the chairman and the vice chairman be of different political parties and that a member may serve as chairman only once during any six-year term of office. The chair serves as the presiding officer at FEC meetings and as the spokesperson on behalf of the commission before Congress.

The Staff Director is responsible for all the administrative functions including disclosure and data systems operations and the management of staff personnel. The General Counsel is concerned primarily with conducting investigation of Matters Under Review, making recommendations for advisory opinions, and engaging in litigation where necessary to enforce provisions of the act.

Enforcing The Act

The FEC operates on a fiscal year 1990 budget of $15.3 million annually. The budget for 1991 is $17.1 million. The commission has received increases in its recent budgets but most of this—three-quarters—was simply used to maintain the same level of activity. The agency is not fully staffed in spite of the addition of 13 staff members this year. Congress authorized a staff of 264 persons but the budget only allows for the hiring of 258. Commission staff members point out that a tight budget has forced the commission to cut back on Clearinghouse contracts (which provide public access to FEC data) and on data processing equipment even though more and more people are seeking the contributions data contained in the FEC's voluminous records. During 1988, for example, the commission responded to over 64,000 requests for information, straining already thin resources. Critics of the commission's compliance and enforcement record attribute problems, in some part, to under-budgeting and understaffing by Congress.

Advisory Opinions

A certain amount of effort has to be spent simply clarifying the regulations and issuing various Advisory Opinions (AOs). The commission will issue AOs to any individual who raises questions regarding the application of the law to a specific factual situation. These opinions are the commission's best interpretation of the act as it stands. Of course, not everyone is satisfied with the advisory opinion they get—especially when it has an adverse impact on a particular candidate or election interest.

One group, the U.S. Defense Committee, attempted to obtain judicial review of an advisory opinion they received. The U.S. District Court for the Northern District of New York upheld the commission's advisory opinions. (That decision was annulled by the U.S. Court of Appeals for the Second Circuit, on the basis that "nothing in the legislative history of the act indicated that Congress thought the advisory opinions were reviewable.") In addition, the court pointed out that even if someone disregarded the advisory opinions, they were still entitled to the full benefit of enforcement procedures as described in 2 U.S.C. Section 437g, so that the advisory opinion was not in and of itself "final and binding."

Auditing Disclosure Information

The second major enforcement activity is the review of reports filed with the commission. The commission employs a staff of auditors to conduct a desk audit of every campaign's finance report. More than a few reports are deficient, in that they omit certain financial data or lump various financial categories together. When staff members of the reports analysis division find such omissions, they issue a routine request asking for additional information or a correction of a candidate's data. Approximately one out of seven of the disclosure reports that the commission receives is incomplete or incorrect. Should a correction not be made, however, the candidate's failure could become subject to FEC enforcement action.

On occasion, fraudulent operators will pretend to be the political representative or committee organizers for a particular candidate. They will solicit contributions "on behalf of the candidate," but quickly divert these funds into accounts for their own personal use. While the FEC has received complaints about this kind of fraud, it does not have, under the act, any direct authority to deal with the problem.

Up until 1979, the FEC had authority under the FECA to conduct random audits of a committee's records. This authority was removed by Congress in the 1979 amendments to the act. The commission believes this was a mistake, and that random audits are an extremely effective mechanism for motivating voluntary compliance. They cite the experience of the Internal Revenue Service, pointing out that random audits have proved to be an effective motivator for tax compliance. Further, they maintain that this would improve the public's perception of the effectiveness of the commission's enforcement efforts. In its legislative recommendations for 1989, the FEC suggested that they be revested with the authority to conduct random audits. Further, they suggest that they would randomly select political committees from a pool established using threshold criteria, such as the total amount of contributions or disbursements. They would then conduct random audits of committees within this pool.

Another method, more politically neutral and cost effective, would be to randomly select committees from all congressional districts or to select congressional districts themselves and to audit all of the committees within those districts.

Investigation of Complaints and Violations

Although some violations show up through routine review of committee reports, most come to the attention of the FEC through a complaint filed by an individual or group, or through the media. Individuals filing a complaint must provide their name, address and telephone number and a clear statement of their view of the facts concerning the purported violation. This complaint must be sworn to by the person initiating the complaint and notarized. Complaints are funneled directly to the Office of the General Counsel at the FEC, which then begins the initial determination of the validity of the complaint. If the complaining party is really alleging a violation of another law or if the complaint is deemed invalid in the professional judgment of the counsel, it is rejected. If the complaint is not rejected, however, a case file is opened on the complaint and an enforcement action begins.

The FEC has exclusive jurisdiction with regard to only the civil enforcement of the act. (The FEC refers to its various cases as "Matters Under Review.") Criminal prosecutions are undertaken by the United States Department of Justice, either by referral from the FEC or on the initiative of the U.S. Attorney in a particular district. (Usually, the local U.S. Attorney comes into possession of knowledge—sometimes as a result of a corollary investigation—that a criminal violation of the act has occurred.)

The commission's first step in enforcing the act is to provide notice and an opportunity to respond. Then an investigation is conducted and a voluntary agreement of compliance is sought. The only exception is the routine late filing of reports, in which case settlements are sought prior to investigation. According to the commission, a number of transgressions arise more out of ignorance than malice and this is usually a quick and effective way to remedy minor violations.

The commission can levy a civil penalty which may not exceed $5,000, or a sum equal to the amount of the contribution in question, whichever is the greater amount. In cases where the commission is convinced that a violation was "committed [as] a knowing and willful violation of the act," it has the authority to increase the civil penalty to $10,000 or an amount double the expenditure in question. In one case, the commission levied civil penalties of $190,000.

The FEC's general counsel believes the adverse publicity that arises from a penalty imposed on a candidate or committee is often a more effective deterrent to future transgressions of the act than is the civil penalty itself. But the FEC reports that the civil penalties are often not large enough to deter some individuals or large committees from violating the act. At the present level, they are simply calculated by some players as a "cost of doing business" in the campaign contributions arena.

Even though the charge is civil and not criminal, the potential publicity associated with an FEC investigation can be detrimental to political candidates. Although the FEC statute which authorizes such investigations does contain confidentiality provisions, it is seen by some as prejudicial to subjects of an investigation. One reason is that the wording contains the language "the commission finds reason to believe a violation of the act has occurred." Present procedure requires the commission to arrive at a finding that a violation has occurred before it can begin an investigation. But many of the investigations later determine that no violation has taken place. In effect, the commission is judging the subjects of its investigations guilty before the facts are known. However, the matter is not made public until it is closed. The commission would like to change the wording of the statute to read "may have occurred."

Enforcement Delays

Critics of the FEC complain that enforcement is weak and that the FEC does not have the ability to deal with complaints and perceived violations in a timely and rigorous manner. As of September 1989, the Office of General Counsel had 326 open cases being handled by 17 staff attorneys each managing, on average, 19 separate cases—substantially higher than the normal case load. It is not unusual in the Justice Department, for example, for two or three attorneys to be assigned to a single case. The FEC relies completely on its own staff; the general counsel's office has no field investigators or regional offices to facilitate field investigations.

In acknowledging the problem that slow enforcement poses for fulfilling its responsibilities, the commission, in requesting additional enforcement staff, testified in 1989 that "it must be remembered that some of the delays in enforcement are outside the control of the agency. For example, opportunities for a respondent to respond, problems in obtaining evidence or testimony, and time spent conciliating all add to the time it takes to complete cases."[10]

In addition, the commission, because it is split evenly among Republicans and Democrats, sometimes reaches a stalemate on enforcement recommendations forwarded by the Office of General Counsel. These stalemates may contribute to public perception that enforcement is sometimes lax or absent. In other instances, the commissioners may reject the counsel's recommendation for enforcement action. In the past, commissioners were not obligated to provide the public with written reasons for their rejection of the counsel's recommendation. But in *Common Cause* v. *FEC*,[11] the court ruled that, in all future complaint-generated cases which involved a 3-3 tie vote on proceeding with the investigation, the commissioners who voted against proceeding would have to issue public statements clarifying why they had failed to adopt the counsel's recommendation.

Then the courts went further. During December 1986, the counsel recommended that the commission proceed with an investigation of the Reagan campaign. The commission voted 4-2 not to proceed with the investigation. A district court ordered the commissioners who voted against the investigation to describe the reasons behind their decision. The commissioners provided what they thought was a satisfactory rationale; but the court demanded a fuller explanation. Finally, in July 1988, the commissioners submitted a second set of statements, and in September, the court agreed to a dismissal of the Common Cause complaint.

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[10] "FEC Responses to Questions Posed by the Subcommittee on Elections of the House Committee on Administration in Connection with Fiscal Year 1989 Budget Requests.

[11] Common Cause v. FEC, 692 F. Supp. 1391 (D.D.C. 1987) 692 F. Supp. 1397 (D.D.C. 1988)

Reform Of The Federal Election Commission

> "It is difficult to wage a public awareness campaign on campaign finance abuse by focusing on the problems of the Federal Election Commission. The FEC's responsibilities are little known to the public and so it is easy for politicians to grandstand on reform issues. Congress knows that little will be done to change the system they created. The FEC simply doesn't have the power—in principle and in real budgetary clout—to keep the democratic system honest. Congress only voted against a pay raise for itself because it acknowledged the reality of public pressure. The pay raise issue was easy for the press and the American people to target. The FEC and campaign finance abuses are difficult to put your hands around."
>
> —a senior congressional aide

While minimum intrusion by a federal agency remains a priority among most reformers, the structural weaknesses of the FEC have created problems for enforcing the FECA. The difficulties faced by the FEC, and the manner in which the commission functions, are seen by many reformers as an outcome, "an intended consequence," of the FEC's relationship to Congress. Reformers urge a streamlining of the FEC's procedures and a clarification of the legal role and authority of the commission. (Exhibit on page 17 presents a summary of proposed reforms for the FEC.)

From its creation, the commission has functioned as a quasi-independent agency. Congress established a "weak" regulatory agency by providing for a commission balanced in partisanship, subject to legislative veto and constrained by specific procedural requirements. Congressional powers of oversight and allocation of the FEC's budget leave the commission without resources to enforce the campaign laws effectively. For example, Congress, by voice vote, withdrew the FEC's power to conduct random audits of congressional campaigns in 1979. Moreover, the FEC's recommendations are not subject to action by Congress.

The FEC is criticized for its inconsistent decision-making in enforcement matters and for its failure to adhere to established principles. According to Common Cause: "Rulemaking can provide clarification of the act that is broader than the fact-specific focus of advisory opinions or enforcement actions. Standards promulgated by the FEC as rules can thus provide guidance to all persons and organizations who are subject to campaign finance laws."[12] The U.S. District Court and the U.S. Court of Appeals for the D.C. Circuit have reinforced the need for the commission's decision-making to be well-reasoned and clearly articulated.

The commission is criticized primarily for the following reasons:

- —the absence of a permanent chairman with a strong leadership role;
- —the absence of adequate accountability on the part of appointed officials;
- —frequently deadlocked decisions by the commissioners;
- —the provision for ex-officio members from the House and Senate;
- —lack of investigators trained in understanding the complexities of financial reporting;
- —the requirements of the commission to proceed through deliberate stages of repetitive voting;
- —reliance on ad hoc Advisory Opinions rather than the establishment of policy through regulations;
- —indirect delegation of responsibility to staff without adequate policy direction; and
- —focus on non-controversial matters.

Institutional Reform via Strong Management

The qualifications required for appointment to the FEC have faced strong criticism from the beginning. The requirement for partisanship steers the selection process of the commissioners as reflected in the statute:

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[12] *The Failure-to-Enforce Commission* (Washington, DC: Common Cause, September 1989), page 34.

Summary of Proposed Reforms for The FEC

Recognizing that maximum public information about the financing of political campaigns requires new disclosure rules, reform advocates call on the FEC to address the following issues:

1. Adopt effective allocation guidelines with the expressed intent of preventing national committees from using soft money to pay for activities that influence federal elections. Reform legislation should foster intra-party relationships by allowing state and local party committees to continue to participate.

2. Develop a centralized procedure at the national level to collect and make available information regarding the contributions and expenditures of soft money by analyzing the conduits through which all soft money is channeled. Define the types of contributions and expenditures to be analyzed. Coordinate procedures for gathering and disseminating information with state and local campaign reporting offices.

3. Establish an allocation formula on how each soft money dollar should be counted as a contribution to electing federal candidates and therefore subject to federal limits. Whether this allocation is 100 percent, as Common Cause advocates, or a less stringent solution which recognizes that most soft money is contributed to help the national ticket, will need to be determined.

4. Prohibit national party committees from setting up disclosure-exempt, non-federal accounts, and permit such committees to collect and spend only FECA-regulated monies, exempting money raised for party committee office facilities. Extend the FEC mandate to keep separate accounts of soft money disclosures.

5. Prohibit soft money fundraising through nationally-centralized techniques; foster party involvement in candidates' campaigns.

6. Require state and local party committees to disclose all soft money received in their non-federal accounts. Mandate federal disclosure requirements if state laws remain inadequate.

7. Regulate lobbying and tax-exempt organizations that give or receive soft money.

8. Encourage all states to standardize their disclosure laws without intruding into state election laws.

9. Authorize the FEC to audit any candidate where there is reason to believe a violation may have occurred.

10. Permit the FEC to become the direct recipient of Congressional candidates' financial reports instead of the House Clerk or Senate Secretary. All reports should be filed directly with the FEC, thereby eliminating the current "point of entry" filing procedure with the Clerk of the House and Secretary of the Senate.

11. Disclosure has focused on examining the FEC reports; new emphasis is calling for examination of how the money is spent and whether or not the money raised is being accurately recorded. Increasing requirements for disclosure, however, do not necessarily mean that there is consensus on ceilings for soft money.

12. Require the FEC to recommend the use of a standard software program to be used by political committees. Any other programs should be able to be converted to the standard program.

13. To make public disclosure more effective, the data should be aggregated and indexed so that patterns of money flow can be examined more clearly.

14. Facilitate the timely disclosure of data before an election. For example, restructuring the FEC's audit procedures to reflect fewer expected challengers once state-by-state expenditure limits are repealed may enable the FEC to focus on receipts during the audit process.

15. Institute a new audit policy that acknowledges that the audit process serves to check up on other FEC procedures for obtaining compliance with the act. Improvements in the audit process will require the hiring of trained investigators who are experienced in looking for patterns of giving which raise questions about potential campaign finance violations.

16. Contributions to state parties should be reported by all party committees to the FEC. This improvement is proposed because contributor gifts are currently publicly available only in separate reports from state parties with differing disclosure requirements.

"No more than three members of the commission appointed... may be affiliated with the same political party." Conflict of interest, party loyalty and deadlocked decisions are frequently cited as reasons for inaction on the part of the commissioners. Reform proposals center on implementing new substantive criteria (e.g., experience, integrity, impartiality and good judgment) to replace partisanship. In the words of one congressional staffer:

> "The backgrounds of the commissioners ensure party loyalty and that the routine of deadlocked decisions will continue as long as the number of commissioners goes unchallenged. It is obvious to anyone involved with campaign finance that it is in Congress' interest to leave the FEC exactly where it is. Whenever the FEC begins to act too aggressively, as it did with the random audits, Congress will roll back the FEC's power simply by slashing its budget or amending the law."

The chair's one-year tenure at the FEC is unlike similar roles in truly independent regulatory commissions where the chair has the power to hire the principal staff and manage the agency during his or her tenure. The structural arrangements set out by Congress deny policy-making authority to the FEC. The problems of organizational inefficiency and lack of clarity in policymaking are aggravated by lack of continuity in leadership. In effect, the FEC's structure leaves it with weak management and little direction. Determining the effectiveness of the law vis-a-vis loopholes and ineffective criminal charges—as well as determining the appropriate procedural framework for carrying out the day-to-day activities—could be achieved through strengthening the chair's role.

Reformers maintain that to establish the FEC as an independent agency, similar to other governmental regulatory agencies, requires the commission's mandate to be executed with an aggressive, objective and even-handed approach. Further, they say, fixing administrative and managerial responsibilities is the first step toward establishing organizational stability, improving planning and budgeting, and assuring greater public accountability. A fixed-term appointment, they say, would permit the chair to appoint a staff director responsible for overall management operations. Reformers maintain that commissioners who serve for a fixed period and cannot be removed for political reasons achieve an independence that is important in administering the intent of the law and managing the problems which arise in the political process.

Disclosure Under the FECA

Public disclosure is the essence of the FECA and is considered the commission's "greatest achievement." The *National Journal* comments: "Even the commission's harshest critics applaud its prompt and thorough public disclosure of the campaign finance information that the candidates and political committees file."[13]

As discussed earlier, the FEC relies upon public disclosure and not civil penalties as the primary deterrent against campaign finance abuse. Consequently, the commission does not often pursue malfeasance charges against violators. The current penalties are not a strong deterrent; they pale in comparison to what the organization may have gained financially. Also, with the tremendous increases in contributions combined with new technologies in raising large cash sums, the FEC's current methods of disclosure are viewed as neither comprehensive nor timely enough to accommodate the volume and complexity of finance reporting.

Soft Money

It is alleged that the use of soft money circumvents the intent of public financing of presidential elections, which was meant to eliminate the dependence and the ability of candidates to raise large sums of money from individual contributors. (For a definition of "soft money," see exhibit on page 19.) Sharp increases in the use of soft money raised with the assistance of the national political parties is placing pressure on the FEC to improve its regulatory structure and disclosure requirements.

The 1979 FECA amendments established the principle of allocation to certain types of activities that bear directly on publicly financed presidential campaigns. They also made inapplicable any federal spending limits on state and local party committees paying for such activities. Soft money was permitted as a means to empower state and local party committees to participate in the publicly financed presidential campaign, restricting usage to spending related to voluntary activities. Senate and House races are regulated by contribution limits but no expenditure limits apply.

In the 1988 presidential election, each party set ambitious goals of raising at least $50 million, much of it in soft money, on top of the $46.1 million each ticket received from the federal treasury. Given the magnitude of the fundraising effort and the level of involvement of presidential committees, most observers agree that soft money has influenced federal elections.

Political parties are currently responsible for demonstrating that their allocable activities in connection with federal elections are financed by federal funds. Lack of clear and consistent disclosure rules undermines the basic intent of the federal financing scheme, making it difficult for the public to determine the extent to which soft money contributions are channeled to federal election campaigns. Reform proposals aim to provide clear, consistent and objective guidelines in establishing allocation formulas not now present in the current accounts procedure.

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[13] Carol Matlack, "Guide to the Decision Makers," *National Journal*, June 10, 1989, p. 1529.

Monitoring soft money accounts is difficult because the funds are not reported in a consistent manner by state election committees, which oversee these "non-federal" accounts. In many cases, vast sums of money are not reported at all.[14] There is little guidance on allocation procedures, and most states impose no requirement on committees for reporting the allocation formula used.

Although most states require candidates, parties, and other political groups to report their financial activities, they do so with varying degrees of detail. Reports are often not systematically and reliably compiled because state governments are unwilling or unable to allocate the budget needed to gather this information in some reportable form. There is almost universal agreement that disclosure rules need to be broadened to include soft money, and that fuller accounting of receipts and expenditures, for example, is paramount. Disclosure is described as the "single greatest check on the excesses of campaign finance."[15]

Apart from allocation formulas, the FEC does not have the authority to regulate soft money. To change the law requires congressional approval; questions of federalism—of what the federal government can or should do about state political activity—resurface as the argument for maintaining only the current requirements.

Reformers say that the lack of comprehensive disclosure rules makes it difficult for the public to know how expenditures are being allocated. The FEC maintains that, if money influences federal elections, it must be raised under the FECA and that this influence must be shown. Common Cause argues that virtually all money spent on all elections in this country influences federal elections and must therefore be regulated under FECA. The court in *Common Cause* v. *FEC* expressly rejected the Common Cause argument and said that allocation of expenditures was proper.

The commission continues to experience internal discontent. In February of 1988, it published a notice of inquiry seeking comments on proposed rule changes regarding soft money, and during September and December of 1988, representatives from the Democratic and Republican parties, as well as Common Cause and the Center for Responsive Politics, participated in hearings on the issue. While FEC Chairman, Thomas Josefiak noted that the "commission will vigorously pursue any soft money complaint before it;" he also admitted it cannot generally prohibit or limit the raising of soft money for non-federal purposes by virtue of an imputed or tangential effect on federal elections. Not unexpectedly, the Democratic and Republican committees could find no evidence that soft money was being improperly used and saw the issue as one of perception fueled by a critical media.

Soft Money

The term "soft money" appears throughout this report and is a pervasive term in any discussion of campaign finance. The Congressional Research Service defines the concept as follows:*

"Soft Money refers to money which may indirectly influence the outcome of Federal elections, but which is raised and spent outside the purview of Federal election laws and which would be illegal if spent directly in connection with a Federal election. The significance of soft money stems from several factors:

(1) that many States permit—in connection with State-level campaigns—direct union and corporate contributions (prohibited in Federal races) and amounts from individuals far in excess of the $25,000 which Federal law permits;

(2) that Presidential candidates who accept public funding in the general election may not spend any money from private funds (other than the specified amount which the national parties may spend on their behalf); and

(3) that the 1979 FECA Amendments permitted State and local parties to spend unlimited amounts on grassroots organizing and voter drives aimed at promoting the entire party slate (although the portion of funds allocated to support Federal candidates must be raised and spent in accordance with Federal law).

In recent Presidential elections, both national parties have engaged in extensive efforts to raise millions of dollars for their State affiliates, in part at least to boost the national tickets; in 1988, an estimated $25 million in soft money was raised by each of the major parties, leading to charges of circumvention of the spending limits imposed on the Dukakis and Bush campaigns. (Such activity would generally have to be disclosed at the State level.)"

Source: Campaign Financing," Congressional Research Service *Issue Brief*, December 18, 1989, p. 5.

Expedited Enforcement

The turnaround time for enforcement of FEC regulations is often too long to correct abuses that are in progress. In a campaign, for example, certain abuses may be observed being committed but the commission must operate within the administrative procedures set forth in the law, which mandate that a person or committee be given 15 days to respond to a complaint. Instead, commission staffers would like Congress to provide the authority for the initiation of a civil injunction procedure, allowing the commission's counsel to go directly to a federal district court and seek injunctive relief in the form of a restraining order. The commission recommends that they be given such authority when four conditions are met. These are:

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[14] *Soft Money—A Loophole for the '80's* (Washington, DC: Center for Responsive Politics, 1985), p. 4.

[15] Larry Sabato, "Executive Summary," *Study on Campaign Finance* (Washington, DC: Project for Comprehensive Campaign Reform, April 1989), p. 5.

1. The commission staff is in possession of evidence indicating that the persons involved are likely to commit a violation;
2. The failure of the FEC to act immediately will result in irreparable damage (possible loss of an election) to a party affected by a potential violation;
3. Expeditious action, in the form of an injunction, will not result in undue harm or prejudice to the interest of the parties enjoined; and
4. The interest of the general public is best served by an expeditious handling of a matter under review.

These are not four separate conditions. Rather, they make up a four-part requirement that is derived from the long-standing judicial test for issuing a preliminary injunction in court.

Fraudulent Operators

Internally, the FEC is requesting the authority to deal directly with fraudulent operators soliciting contributions. The commission is also pressing to deal directly with operators of unauthorized committees.

Can The Act Be Reformed?

Members of Congressional committees, as well as FEC officials, are reluctant to predict the possibilities for the passage of laws amending the act. There are several factors that mitigate against such laws being passed. Some of these are:

1. Most congressmen are reluctant to change the rules. They are well-acquainted with present regulations, and support the proposition that it is "better to deal with the enemy you know than the one you don't."
2. Both parties are expert in crafting amendments designed to place the opposing party at a disadvantage. Thus, very few of the proffered amendments could be construed as bipartisan.
3. Mutual distrust between the political parties leads to suspicion that proposals might be "Trojan horses."
4. Both parties have grown accustomed to using the available soft moneys. They are reluctant to change the existing system unless there are offsetting *quid pro quo* changes that neutralize any campaign advantage an opponent might gain.

Since active reformers are hesitant to tackle the FEC, they concentrate instead on individual, issue-by-issue campaign finance reforms. For advocacy groups, the next target is congressional elections. Ellen Miller of the Center for Responsive Politics says most reformers feel that, with the exception of the soft money issue, an effective system for monitoring presidential campaign finance is in place, and that the presidential system could be used as a model for new rules on congressional campaign funding. Issues of concern to reformers of the general campaign finance system include:

- — the high cost of running a political campaign, which demands ever increasing amounts of special interest money and often prevents qualified candidates from running;
- — the proliferation of PACs, and the perception that they exercise undue influence on government;
- — the degree to which soft money, on which there are no reporting requirements, influences politicians and circumvents contribution limits so that no one knows how much money has been given or where it came from;
- — the amount of time politicians must devote to fund raising, which takes incumbents away from the job they were sent to Washington to do;
- — the length of political campaigns that often run a year or more, exhausting both candidates and voters, and increasing the likelihood of negative campaigning;
- — advantages enjoyed by incumbents, which make for an "uneven playing field," and may be the primary reason behind the high rate of return of incumbent Congressmen to office (over 98 percent in 1988);
- — negative campaign advertising which escapes regulation or oversight;
- — questions of ethics, such as those raised during the controversy over former Speaker of the House Jim Wright's acceptance of book sales as a substitute for honoraria, former Congressman Tony Coelho's questionable campaign tactics, or the "Keating Five;" five senators accused of using improper influence with federal regulators on behalf of Charles Keating's Lincoln Savings and Loan; and
- — the decline of the political party as the primary vehicle for voter turnout and for generating voter coalitions.

Neither the FECA nor its subsequent amendments provide oversight or regulatory authority over these and other areas of concern. A number of bills have been introduced in Congress that would address some of these concerns, and the administration has introduced a package of its own. (See exhibit on pages 22-23 for a comparison of Republican and Democratic reform proposals.) Majority Leader George Mitchell and Minority Leader Bob Dole have each named negotiating teams to try to resolve their parties'

Three Competing Plans for Rewriting . . .

	Current law	Democratic plan
Spending limits	No limits on how much candidates may spend. The Supreme Court ruled in 1976, in *Buckley v. Valeo*, that limits must be voluntary.	Limits are based on state population, ranging from $950,000-$5.5 million in a general election; candidates could spend an additional 67 per cent, up to a maximum of $2,750,000, in primaries. the general election limit could be raised by as much as 25 percent in federal funds to match individual in-state contributions of up to $100 each.
Contribution limits	Individuals may give a candidate up to $1,000 in both a primary and a general election and give $20,000 to a national party committee. No individual may contribute more than $25,000 in an election cycle.	Individual limits per candidate would stay the same, but the total ceiling would be raised to $30,000. State parties would be eligible for the same $20,000 as national party committees.
Political action committees	PACs may give $5,000 to a candidate in both a primary and a general election and $15,000 to a national party committee.	PACs could not contribute to candidates. National party committees could accept no more than two cents per voter from all PACs. The $15,000 national party lids would also apply to state parties.
Party contributions to candidates	National and state parties are permitted to make inflation-adjusted expenditures on behalf of a candidate, ranging from $50,280-$1,073,478, depending on the state's population.	The limit would not apply to direct-mail fund-raising activities that make only "incidental reference" to a candidate.
Public financing and incentives	No public financing for congressional candidates. Candidates are entitled to a broadcaster's "lowest unit charge"—the rate it charges its best customers—for advertising during the 60 days before general elections and 45 days before primaries.	Candidates receiving 10 per cent of their general election spending limit from small, in-state contributors would be eligible for public financing—through a voluntary federal tax checkoff fund—equaling 70 percent of the spending ceiling; for reduced broadcast postal rates; and for vouchers paying for one-to-five-minute advertisements in the final five weeks.
Independent expenditures	The Supreme Court has barred restrictions on expenditures by groups that have no links to a candidate.	Expenditures by groups registered to lobby would not be deemed independent of a candidate. Candidates who are targets of such expenditures would have their spending limits increased by that amount and would be eligible for public funds.
Bundling	Groups and individuals may solicit or receive money from several contributors and "bundle" the funds for a candidate.	Bundling could not be in excess of PAC or individual contribution limits.
Party "soft money"	Contributors may evade federal limits if they contribute to state and national party activities not directly related to a federal campaign.	Money raised by state parties to help federal candidates would have to be disclosed and would be limited to 30 cents per voter in each state.

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. . . Congressional Campaign Finance Law

Republican plan	Bipartisan experts	
No change from current law.	Would set "reasonably high limits" that give candidates adequate opportunity to communicate with voters and reflect added costs of running in less populated states and in states that require advertising in adjacent states. A limited amount of in-state contributions would be exempt from limits.	**Spending limits**
The $1,000 limit would be cut to $500 per election for out-of-state contributions. Contributions to a national party committee and to Senate and House compaign committees would be exempt from the $25,000 ceiling. If a candidate spends more than $1 million of his or her own funds, no individual or party limit would apply to contributions to opponents.	Would allow a "modest increase" in the $1,000 limit to reflect inflation since its 1974 enactment. Contributions to party committees would be exempt from the total or subject to a significantly higher limit.	**Contribution limits**
PACs would be abolished. If a court found this ban invalid, the contribution limit would be cut to $1,000 per election.	After total PAC contributions reach a specified level—perhaps a third—of a candidate's spending limit, the maximum for each PAC would be cut to $2,500. PACs would not be allowed to contribute after an election to retire a candidate's debt.	**Political action committees**
Certain organizational activities would be exempt from the limit, such as research, voter registration and get-out-the-vote drives.	There would be "generous allowances" or even no limits for organizational activities such as research, voter registration and get-out-the-vote drives.	**Party contributions to candidates**
No public financing. The lowest unit charge would apply to all time slots, not just those designated by broadcasters, the current practice. Senators could not send unsolicited franked mailings during the year they are up for election.	No public financing. Broadcasters would provide eight hours of free time to the major parties each year, with guaranteed prime-time and pre-election slots. Candidates would receive reduced postal rates, and in-state contributors would get a 100 percent tax credit.	**Public financing and incentives**
Groups making independent expenditures would have to make complete and timely public disclosure.	Independent expenditures by union, corporate and trade association PACs would be barred.	**Independent expenditures**
PACs and registered lobbyists would not be allowed to bundle individual contributions, but party committees could.	Bundling by corporate and union PACs or by registered lobbyists would be prohibited. Permissible bundling contributions, and the costs incurred, would be fully disclosed.	**Bundling**
No limits would be placed on soft money, but the parties would have to fully disclose all such money intended for federal candidates.	Clear lines would be drawn between federal and state campaign funds. All national and state party spending would be disclosed and some restrictions placed on nonfederal spending that may support ticketwide activity.	**Party "soft money"**

differences on the issue. The lead negotiators were Democrat John Kerry of Massachusetts and Republican Mitch McConnell of Kentucky.

Both Mitchell and Dole, however, have downplayed expectations. The Republican and Democratic packages differ sharply. The Republican campaign finance bill (S. 137) outlined on May 1 by Senator McConnell would eliminate PACs and significantly enhance the role of political parties in elections, playing to a GOP strength—the party often raises more money than it is allowed to spend under current limitations. Senate Democrats have outlined their own package for reform, which would set spending limits for campaigns and offer public financing to candidates who abide by them. It would also bar PAC contributions to Senate candidates.

Public and Private Interest Groups

Two Washington-based public interest groups—Common Cause and the Center for Responsive Politics—have evolved as important forces in generating support for campaign finance reform. The National Association of Business PACs (NABPAC), which generally represents business' interests, has issued a response to the administration's proposal supporting the plan in general but disagreeing with its recommendations to eliminate PACs.[16]

Virtually every private sector organization concerned with the issue calls for immediate and comprehensive campaign finance reform of some type. Experts, who before the 1988 elections and the ensuing ethics scandals would have given campaign finance reform virtually no chance for passage, now say there may be a chance for some action in Congress, either on the President's proposal or on a compromise in House and Senate committees.

Most experts agree that until the FEC is given a broader mandate and more regulatory authority, any attempts to overhaul the campaign finance system will be unsatisfactory in the long term, and the abuses the reforms address will simply "pop up" elsewhere. However, Larry Sabato, election analyst and author of several books on the campaign finance system, thinks there are some steps to be taken which would be worthwhile. He says: "The alternatives in campaign financing are sometimes seen as an unappealing choice between leaving a deteriorating system alone and instituting bad reforms. But there are options which, properly chosen, offer changes that address both corruption and unrelated campaign finance problems."[17]

Million Dollar PACS

TOP CONTRIBUTORS TO FEDERAL CANDIDATES, 1987-1988

National Association of Realtors	$3,045,769
International Brotherhood of Teamsters	$2,865,224
American Medical Association	$2,315,646
National Education Association	$2,104,689
National Association of Retired Federal Employees	$1,974,850
United Auto Workers	$1,953,099
Association of Trial Lawyers of America	$1,919,558
National Association of Letter Carriers	$1,732,482
American Federation of State, County and Municipal Employees	$1,658,386
International Association of Machinists	$1,492,780
National Association of Home Builders	$1,452,958
United Brotherhood of Carpenters	$1,357,998
National Association of Life Underwriters	$1,329,150
American Telephone & Telegraph Co. Inc.	$1,305,112
Air Line Pilots Association	$1,209,500
National Automobile Dealers Association	$1,202,420
International Brotherhood of Electrical Workers	$1,194,690
Auto Dealers & Drivers for Free Trade (import car dealers)	$1,158,700
American Bankers Association	$1,151,050
United Food & Commercial Workers International Union	$1,147,610
National PAC (pro-Israel PAC)	$1,134,500
Seafarers International Union	$1,083,415
AFL-CIO	$1,006,096

Note: These are direct contributions by PACs to political candidates. "Independent expenditures," or funds PACs spend in support of a candidate on such items as advertising or polling, are not included. The National Association of Realtors made $1.3 million in independent expenditures, the import auto dealers $1.4 million and the American Medical Association $836,000. If the list included independent expenditures, three PACs would be added to the million-dollar list: the National Rifle Association ($2.3 million), the National Committee to Preserve Social Security ($1.6 million) and the National Right to Life Committee ($1.5 million).

Source: Federal Election Commission

Reforms Most Often Suggested

Eliminate or Reduce Contribution Limits of PACs

PACs, corporate, labor, and ideological, have become one of the largest single funding sources for candidates over the past several years, contributing some $159 million to campaigns during the 1988 election. That translates to 49 percent of all revenues received by candidates for the House, and 31 percent of Senate candidate revenues, according to figures compiled by the Center for Responsive Politics. A final FEC report on PAC spending in the 1987-88 election cycle shows that a relatively small number of PACs gave much of the $159 million in PAC money received by politicians (see exhibit on page 24). The number of PACs registered by the FEC grew from 608 in 1974 to 4,828 by the end of 1988. Interestingly, however, that number dropped to 4,178 in 1989.

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[16] "NABPAC Supports President's Overall Campaign Finance Reform Initiative But Disagrees With PAC Recommendations," *Media Alert*, June 29, 1989.

[17] Larry Sabato, *Campaign Finance Reform Ideas: The Good, the Bad and the Ugly* (Washington, DC: Project for Comprehensive Campaign Finance Reform, April 1989), v. 2, p. 5.

Some argue that, even if PACs are excessive, to eliminate them would simply set clever campaign operatives to work devising new ways of raising the vast amount of money it takes to run a successful campaign.

The administration's campaign finance reform package calls for elimination of all PACs supported by corporations, unions or trade associations. Independent contribution limits would be reduced from $5,000 to $2,500. Other proposals call for limits on the contributions individual candidates may accept from all PACs, or for cutting the amount each PAC may give to an individual candidate. A set of recommendations submitted in March 1990 to the Minority and Majority Leaders of the Senate calls for leaving in place the current $5,000 limit on PAC donations to individual candidates, but prohibiting use of PAC funds for campaign debt retirement.

Campaign Spending Limits

The cost of running campaigns has skyrocketed in recent years. The average Senate campaign cost nearly $4 million in 1988; the cost of the average race for the House was $270,000; and the number of high-budget individual races has doubled since 1984. A total of 138 House races topped the $500,000 spending mark in 1988, and 20 House races cost more than $1 million.

A serious side effect of the cost of campaigning is that members of Congress necessarily spend enormous amounts of time raising money for campaigns, particularly in the House. Because they must run for election every two years, the pressures of campaigning and raising the funds to pay for it are never far from sight and increasingly more time and energy must be spent filling campaign chests, leaving less time for policy and lawmaking.

Both the House and Senate are considering proposals for campaign spending limits, established on a state-by-state basis, and the Senate bill is tied to back-up public financing. The Senate bill also provides for reduced broadcast and mailing rates, and for limits on personal spending by candidates. Both bills also call for doubling the federal income tax check-off rate.[18]

Republicans generally oppose spending limits on the grounds that this would diminish participation in the electoral process; it is also well-known, of course, that they enjoy an advantage over Democrats in fundraising capabilities.

Public Financing

Supporters of public financing say it reduces the influence of special-interest money and provides an opportunity for candidates who might otherwise be shut out by wealthy or well-connected opponents. Opponents believe public financing helps lock in the built-in advantages of incumbency by limiting a challenger's ability to raise money. They also contend that it weakens party unity and allegiance by encouraging fringe candidates.

Of course, presidential campaigns have been publicly financed for some time. Congressional races, however, are not publicly financed except where individual states and local jurisdictions have adopted such programs. A 1988 proposal for federal financing across-the-board, led by Congressional Democrats, fell victim to a Republican-led Senate filibuster.

One side effect of this is that members of Congress, particularly Senators, are forced to look beyond their home states for campaign funds (see exhibit on page 26). In a recent Washington Post article, Senator Max Baucus was quoted as saying, "We don't have a lot of wealthy folk living in our state like California or New York. I have to spend time traveling around the country, purely as a defensive measure because I know my opponent may potentially deluge the state with dollars."[19]

This issue, among others, was considered by a bipartisan task force, headed by Democrat Al Swift and Republican Guy Vander Jagt, which was given the task of coming up with recommendations for changes to the FECA amendments. Several states have established their own public financing and spending limit packages.

In mid-April three national citizen action groups launched a $1 million advertising campaign to support public financing of House and Senate races.[20]

A Level Playing Field

Incumbent congressmen have always had the advantage over challengers: their names are identified with Congress; legislative accomplishments beneficial to constituents are generally credited to the member; and

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[18] Senate Bill 137, introduced January 25, 1989 by Senators David Boren (D-OK), George Mitchell (D-ME), and Robert Byrd (D-WVA); and House Resolution 14, introduced January 3, 1989 by Reps. Tony Coelho (D-CA), Jim Leach (R-IA), and Mike Synar (D-OK).

[19] Quoted in *New York Times*, April 16, 1990, p. A14.

[20] *Washington Post*, April 18, 1990, p. A8.

Raising Money Far From Home

Incumbent senators running for re-election this year. Figures cover contributions by individuals of $200 or more in 1989.

SENATOR	PARTY, STATE	MONEY RAISED	FROM OUT OF STATE
Al Gore	Dem., TN	$ 363,291	96.5%
Larry Pressler	Rep., SD	386,071	94.7
Tom Harkin	Dem., IA	701,710	90.6
William S. Cohen	Rep., ME	306,175	89.3
Alan K. Simpson	Rep., WY	212,900	87.6
Joseph R. Biden, Jr.	Dem., DE	588,212	87.0
Ted Stevens	Rep., AL	172,472	82.2
Max Baucus	Dem., MT	384,656	81.2
Rudy Boschwitz	Rep., MN	1,809,589	74.5
Bill Bradley	Dem., NJ	1,772,635	73.2
Carl Levin	Dem., MI	1,378,507	69.9
John D. Rockefeller	Dem., WV	741,265	69.2
Mark O. Hatfield	Rep., OR	106,299	59.5
John Kerry	Dem., MA	1,199,373	53.6
Pete V. Domenici	Rep., NM	488,164	52.2
Paul Simon	Dem., IL	1,401,763	51.4
David L. Boren	Dem., OK	760,124	50.3
Howell Hefflin	Dem., AL	866,974	49.8
Jesse Helms	Rep., NC	286,277	48.7
Nancy L. Kassebaum	Rep., KS	13,100	47.7
Strom Thurmond	Rep., SC	305,510	39.9
Claiborne Pell	Dem., RI	36,450	37.7
J. Bennett Johnston	Dem., LA	457,646	36.7
Mitch McConnell	Rep., KY	1,466,711	34.8
Jim Exon	Dem., NE	185,022	34.7
David Pryor	Dem., AK	539,699	23.7
Thad Cochran	Rep., MS	315,898	20.6
Daniel R. Coats	Rep., IN	618,622	17.5
John W. Warner	Rep., VA	225,151	16.5
Phil Gramm	Rep., TX	4,050,048	14.9
Sam Nunn	Dem., GA	782,302	13.8

Totals exclude money from political action committees.

Source: Federal Election Commisssion

permanent staff offices in Washington and at home keep the member's name prominent. Recently, however, it has become even more difficult for a challenger to defeat a sitting congressman.

The increase in overall campaign spending does not seem to aid challengers in their bids for office. First, most PAC money goes to incumbents because their seats are considered safer, creating a chicken-and-egg situation: if you can't get money to run, you can't win, and if you haven't won, you can't get money to run. Spending by incumbents increased by 17 percent over 1986 to an average of $380,000; spending by challengers declined by 23 percent to an average of $115,000. By looking at individual Congressional races in 1988, the numbers show a financially lopsided contest between incumbents who are well equipped to win against challengers who are unable to raise enough money to seriously compete.

To illustrate what this can mean to a race, during the 1988 election cycle, Representative Al Swift raised 76 percent ($286,000) of his total receipts from PACs even though he ran unopposed. By contrast, PACs contributed only 12 percent of their total contributions to challengers.[21] In all, 408 of the 435 House races in 1988 featured incumbents seeking re-election; all but six of the incumbents won. No challenger for a House seat spending less than $300,000 won; and the spending gap between incumbents and challengers widened to $264,000 this year, as opposed to $43,000 in 1980, a 510 percent increase in eight years.[22]

The recent proliferation of "leadership PACs" also tends to strengthen the reach of an incumbent. These organizations amass funds in the name of a Member; those moneys are then distributed to candidates who use them in their own races for office, thereby ensuring at the very least a friendly reception when the donor needs assistance later.

Another, although less obvious, benefit of incumbency is the use of the frank mailing system, which allows members to mail unlimited newsletters and other communications, stamped with their names, to constituents without charge. A recent Congressional Research Service report shows that election year mailings from House members are usually double those in non-election years. Common Cause puts the cost of such mailings by the Senate during the election cycle 1987-88 at $53 million.[23] "Franked mass mailings are used for campaign purposes by Members of Congress and provide incumbents with an unfair and discriminatory advantage over their challengers. The use of the frank for mass mailings should be eliminated or sharply curtailed," Common Cause President Fred Wertheimer said recently. In February 1989 the Senate expanded from three to six the number of franked mass mailings each Senator can make to every address in his or her state per year, so taxpayers can expect the cost to escalate significantly.

Some observers suggest that one way to offset incumbent advantages is to subsidize the campaigns of challengers, (i.e., provide such things as travel allowances, reduced or free postage, and free broadcast time).

Strengthen the Party System

Strengthening the role of the political party in financing campaigns is one way to lessen the influence of individual and special-interest contributions. There is no doubt that as special interest groups and individual donations have gained in economic impact on the political process, traditional grassroots political organizations (and, by extension, the national party system) have suffered. This has eroded the parties' ability to push the system toward consensus and to marshal citizens and legislators around a common standard that can be used to create a public agenda.

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[21] *Washington Post*, July 23, 1989, p. A4.

[22] Larry Makinson, *The Price of Admission* (Washington, DC: Center for Responsive Politics, 1989), p. 11.

[23] *Franks a Lot* (Washington, DC: Common Cause, June 16, 1989), p. 2.

There is general agreement that any campaign finance reform should include an increase in allowable expenditures for political parties. For example, there is a two-cent allowance per potential voter at the state level for Senate races. At the federal level, some experts advocate converting soft money into "hard money" by requiring disclosure and setting limits on both contributions and expenditures. Other proposals would double the allowable party contribution by individuals and special interest groups. Other suggestions include tax credits at both the federal and state levels for donations to political parties and/or a "tax add-on" that permits a citizen to channel $50 to $100 of an income tax refund to the party of choice.

Control Independent Expenditures

The FEC acknowledges that independent expenditures are used as a vehicle to circumvent the contribution limits set by the Congress. For other groups, such as ideological or private political organizations, one measure under consideration is to bar such activities sponsored by corporate, trade association, or union PACs. There seems to be little that can be done about the issue, unless Congress can devise a way to address the process of regulating independent spending, since under constitutional guidelines it cannot address the substance of independent spending. There is a provision in a House bill to provide the equivalent of matching federal funds to an opponent of any candidate for whom substantial independent expenditures are made.[24]

Limit Bundling

Bundling, the collection of checks by an intermediate agent from a number of different sources, allows a PAC or other organization to raise money far in excess of what it could give on its own, thereby receiving recognition from the candidate for its efforts. House and Senate bills now under consideration propose that the "bundling loophole" in current law be closed by requiring that any such contributions be counted toward the intermediary's *and* the original donor's limits. A proposal being considered by congressional leaders would prohibit combining contributions by corporate or labor PACs.

[24] House Resolution 14, introduced January 3, 1989 by Reps. Coelho, Leach and Synar.

Probable Impact of Campaign Finance Reform on Business

The element of reform most likely to affect business directly is the proposal to eliminate or restrict PACs. Backers of the system (and there are many) contend that PACs involve millions of Americans in the issues of an election and in campaigns, and that without them, voter participation in the electoral process would decline even further than in recent years.

Others contend that the growth of PACs has been at the expense of grass-roots political party activity, resulting in the lessening of party ties in favor of special-interest coalitions.

It is clear, however, that the elimination of PACs will not affect campaign spending. Steven F. Stockmeyer, executive vice president of NABPAC, said: "Both business and labor feel political involvement is important. Both will be forced to seek other political activities. The unfortunate thing is that smaller PACs, those who represent small- to medium-sized businesses or groups, will dry up, making it harder for the little guy to have an effect on a campaign."

Stockmeyer added that elimination of the PAC system will mean business will take to increased issues advocacy and more grass-roots political activity. He sees increased pressure on senior executives for more individual contributions. "Many executives don't understand how often senior corporate officials were asked for sizable contributions before PACs were created fifteen years ago."

Even if the most drastic step under consideration (i.e., the elimination of PACs) is not taken, corporate, trade association, and labor PACs may be required to work under substantially more restrictive requirements and a number of current practices may be barred. A probable outcome of change is likely to be more sophisticated bundling techniques, proving that no matter what changes are made, ways will be found to make contributions and get credit for contributors' organizations and interests. Another alternative is the creation of unaffiliated groups banding together for independent expenditures on behalf of, or against, a candidate.

The trouble with most of these alternatives is that they are not likely to diminish the flow of contributions, and they will all feed into the stream of unmonitored campaign funds. If disclosure requirements on expenditures are tightened, some corporations may have to keep more detailed records of their in-house expenditures for PAC administration—the only facet of corporate political activity not currently regulated.

Stockmeyer concludes: "Business has been hoisted by its own petard. PACs are one of the most visible and effective elements of campaign financing; they are also one of the more diligent in terms of accounting for contributions. That very diligence seems to have made them the most vulnerable as well."

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Report Number 950

The Changing Human Resources Function

- *Business needs increasingly dominating HR agenda*
- *Traditional human resources concerns being overridden by intense competition*
- *Cost-cutting and restructuring occupying more of HR executives' time*

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The Changing Human Resources Function

by Audrey Freedman

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Madelyn Jennings, Senior Vice President, Personnel of Gannett, Inc., suggested that The Conference Board reconsider the role of the top human resources executive in the 1990s. She was, at that time, Chairman of The Conference Board's Advisory Council on Human Resources Management—a group comprising just such individuals.

After the Council devoted several hours of discussion to the subject of this report, individual members volunteered to review it for content and tone. Some thoughts have been drawn from experiences with the network of human resources executives to whom the Board provides service on a continuing basis. The council that generated and contributed to the report is listed below:

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Mr. Kenneth L. Otto Senior Vice President, Employee Relations, Tenneco, Inc.

Mr. Arthur V. Puccini Vice President - Corporate Employee Relations Operation, General Electric Company

Mr. Douglas M. Reid Senior Vice President, Xerox Corporation

Mr. Gene R. Remoff Vice President, Human Resources ARA Services

Ms. Irene C. Roberts Senior Vice President - Human Resources, American Express Company

Mr. Anthony J. Rucci Corporate Vice President - Human Resources, Baxter Healthcare Corp.

Mr. Patrick J. Scollard Chief Administrative Officer, Chemical Bank

Mr. Arthur Denny Scott Vice President/Director of Personnel, Goldman, Sachs & Co.

Mr. Richard J. Sharp Executive Vice President - Corporate Human Resources, BellSouth

Ms. Joan Showalter Vice President, Personnel, CBS Inc.

Mr. Dale E. Smith Vice President, Human Resources Combustion Engineering, Inc.

Mr. H. Gordon Smyth Senior Vice President - Employee Relations, E.I. du Pont de Nemours & Company

Ms. Cam Starrett Vice President, Personnel & Administration, MacMillan, Inc.

Mr. John J. Tucker Senior Vice President, Human Resources, Kraft Inc.

Mr. Robert V. Welty Vice President - Human Resources Union Carbide Corporation

Mr. Christopher J. Wheeler Vice President, Human Resources, 3M

Mr. B. Joseph White Associate Dean and Professor of Business Administration, The University of Michigan

From the President

With increased competition and a complex and changing work force, the human resources function has come to play a crucial role in the strategic management of businesses.

This report provides a provocative and insightful perspective on the role of the human resources executive. It attempts to define the evolving role of the human resources executive and discusses the need for trained, competent professionals who will be, as business "partners," constantly confronted with the competing demands of functional specialization and business involvement.

One of the means of assuring that The Conference Board's research is relevant and useful to business is seeking the advice and participation of its councils. These councils provide opportunities for senior executives around the world to meet regularly and share information, ideas, and insights on crucial business issues. This report was undertaken at the suggestion of the oldest of those councils: The Advisory Council on Human Resources Management.

The Conference Board would like to thank the Advisory Council for making a contribution and, as practicing professionals, for sharing their expertise and experiences to enhance the quality and relevancy of the report.

PRESTON TOWNLEY
President and CEO

Executive Summary

The role of the top human resources executive in major corporations has changed during the past decade into a directly-involved business advisor and strategist, as well as implementer of business objectives.

Intense competition has overridden previous human resources concerns and forced priorities toward internal, business-driven issues.

Since cost-cutting and restructuring became the watchwords of the 1980s, personnel cutbacks and reorganizations have occupied increasing proportions of the HR executive's time.

Nevertheless, all of the prior themes—employee welfare, personnel administration, union relations, government regulation, and community concerns—are still present among the HR executive's responsibilities.

With the increasing dominance of business needs in the HR agenda, there is some question as to whether the top position is gradually becoming a general management job (albeit with a point of view originating in the work force of the firm). The "technical specialties" might then become relatively static administrative functions.

In such a changing environment, training for the top HR position becomes uncertain. There is a developing issue over whether there is a clearcut human resources professional career, and the specific content of such a career. The Conference Board's Advisory Council on Human Resources Management addressed all of these issues.

Corporate Human Resources Today

Human Resources (HR) management in the 1980s grew and broadened as it became dominated by internal business concerns. Competitive pressures—arising from imports and from deregulation—introduced new business emphases during the preceding decade. Old-line, well-administered corporations were forced to cut costs, improve productivity, become more flexible and responsive, and raise quality. None of these new demands can be met by following rulebooks and procedures. Competition required a new and intense focus on the economics of business operations.

Nevertheless, all of the requirements and responsibilities built into the job during previous eras were still very much a part of its work. These roles had become regularized, to be sure (see page 9), but remain a substantial, highly technical aspect of the HR function. In addition, HR cannot operate completely freely, as if past actions were not present, every day, in corporate life.

The Effects of Previous Corporate Decisions

In younger companies, the speed and ease of movement is great. There is a strong emphasis on recruitment of managers, technical people, and all workers. Growth and newness cover error; there is no time for scrutiny. Human resources results will not come in for decades.

The "anything goes" attitude is quintessentially American. We like to think of ourselves as beginning fresh each day, with enormous potential for quick change and reform. However, for HR managers in larger companies, this is far from true. Past corporate actions are heavily influential and constraining. Those who are aware of the constraints are better equipped to handle them smoothly, pick the important barriers, and shift them out of the way.

HR policies and procedures, the unwritten "standard operating practice" of the firm, the business ethic and culture of the firm, are all the product of actions and decisions that occurred 10, 20, even 30 years ago. Those who made and carried out decisions decades ago could not have foreseen their effects on the 1990 corporation. However, their results are often inappropriate in today's business situation, and need to be overcome. "Overcome" is more than simply "changed." It means redesigning and rebuilding in terms of the needs of the firm today. That is a major burden for HR to bear.

What are these speed regulators slowing down today's HR managers?

- The corporation's "convictions," beliefs, and myths.
- The pace of the business and the firm's time horizon.
- The company's self-image.
- The firm's definition of "the competition," and its definition of the market.
- The "usual and accepted" costs of the business: wage costs, capital availability, and investment requirements.
- The existing level of executive development, work force development and operating habits, managerial ability and "style," and union influence.
- The existing level of technology.
- The culture of receptivity (or resistance) among the hierarchy.

All of these affect HR management, along with general personnel "past practice"—all of the unwritten rules that have grown by accretion over the decades.

The HR job in a large corporation is to make the company more adaptive. It must be accomplished without exposing the company (or the individual manager) to serious risk. It also requires diplomatic attention to the advocates of if-it-isn't-broken-don't-fix-it inertia.

This role was described by Clifford Ehrlich, senior vice president of Marriott Corporation, as being "a catalyst for change." The most frustrating aspect of his job is "the barriers to changes that have already been agreed upon. If one comes from long traditions (which we do), some of those barriers are understandable, some are not quite so understandable. Some are driven by our own function—by people whose history is 'we do it this way, we have that policy, and we have got to do that for the next decade in the same way.' "

Competition demands rapid adaptation. There is a lot of forced change taking place and the HR professional is guiding that change. Business and economic pressures are the most powerful influences on HR today, and will remain so. That creates another problem:

Tension Between Functional Specialization and Business Involvement

With the expansion of business and economic concerns—or competitive pressure—the top HR executive is increasingly involved in operating matters. There is much less demarcation between HR and line management, at least in point of view, or in operating framework. In most situations, HR executives welcome this integration. Yet they feel a tension, particularly at senior levels, between keeping current with the standard specialty areas and their new role as business partners.

Human resources departments comprise several highly specialized subject areas. On pages 21-24 the historical development of these technical areas is explained as a response to unions, or to government, or to developments requiring internal corporate policies of considerable refinement. As a result, today there are compensation experts, executive compensation experts, pension managers, benefits planners, benefits administrators—all proficient in the detailed technicalities of one aspect of pay. In the broad territory of finding and promoting employees are specialists in recruitment, interviewing and hiring, training, succession planning, career counseling, executive development, equal opportunity programming, and organization development. The box above shows what proportion of businesses had these specialties.

These are not all of the technical areas, but they are enough to worry a senior HR executive who is concerned about losing credibility or credentials by spending more time on broad business concerns rather than on his or her earlier speciality. Another concern is whether or not to bring a broad business point of view to the technical specialists reporting to the top HR person. In this situation, the senior HR executive is both interpreter and middleman: part of general management, yet leading a group of functional specialists.

The tension between business involvement and maintaining technical expertise occupied much of a late 1988 discussion in The Conference Board's Advisory Council on Human Resources Management. These top-level human resources executives were nearly all concerned about maintaining technical familiarity. One said that there is a dilemma in time allocation: stay functionally aware and competent, or stay close to general business executive thinking?

Technical Experts in Business Firms

A Society for Human Resource Management-Bureau of National Affairs survey of 477 businesses indicated that the following proportions had one or more "specialists" in a particular subject area:

benefits	**38%**
employment/recruitment	**34**
compensation	**31**
training and development	**25**
EEO compliance/affirmative action	**16**
safety and OSHA compliance	**11**
labor relations	**11**

Source: *Bulletin to Management* (BNA Policy and Practice Series), Vol .41, No. 26, Part II, (June 28, 1990), p. 9.

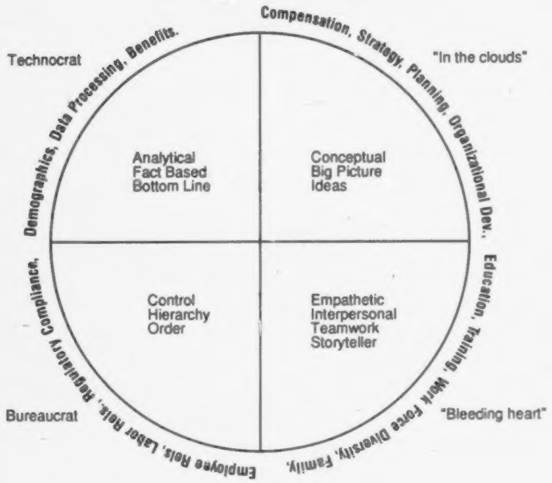
In moving closer to basic enterprise concerns, most of the Council members see the line of demarcation not in functional expertise terms, but in the staff or "assisting" role of HR. One said HR is a staff operation and always will be. Its main activity is to facilitate, support, and influence; and then to allow others to take credit for the results. It exists to further the business's objective, not to create an HR objective: That is the essence of the relationship or partnership with line management. New HR people must be sought on the basis of ability to influence, even at several layers above themselves. A deeper analysis of this influential or assisting role appears in the second section of this report.

One HR executive pointed out that being technically up-to-date in all specialties is no longer possible because the subjects have become too complex. There were several responses to that comment: "This is the reason for good staff work and support in each technical area," said one. "A confident HR executive will openly rely upon the expertise of specialized staff, or other professionals including advisors and even consultants," said another.

In large companies, one observed, the present and future situation is going to require that the HR staff have all of the expertise, and be able to operate relatively independently. The reason is that top HR executives are increasingly being asked to do "separate" problem-solving, run a business in transition, initiate a business start-up, and lead a task force. None of this is traditional work. It suggests that those executives are being drawn into general management, at least on a temporary basis.

Chart A represents different HR "competencies," developed by Cam Starrett, vice president of human resources for Macmillan Company. It shows that HR leadership, like chief executive leadership, requires strength in all quadrants. On the other hand, particular personal strengths and interests characterize technical and specialized HR professionals, as in the diagram.

Chart A: Human Resources Competencies


Technocrat
"In the clouds"
Bureaucrat
"Bleeding heart"
Compensation, Strategy, Planning, Organizational Dev., Education, Training, Work Force Diversity, Family, Employee Rels., Labor Rels., Regulatory, Compliance, Demographics, Data Processing, Benefits.
Analytical
Fact Based
Bottom Line
Conceptual
Big Picture
Ideas
Control
Hierarchy
Order
Empathetic
Interpersonal
Teamwork
Storyteller

The analytical quadrant, for example, contains compensation—which is close to the conceptual group—and benefits. Data processing and "demographics management" (such as identification of high-potential employees) are in the analytical sphere, yet placed closer to the control quadrant. That control group also contains compliance and regulatory matters, as well as labor relations and employee relations. These last two are a little closer to the interpersonal, empathetic sector. Training, work force diversity, family issues, and employee assistance are clearly in the empathetic group.

The conceptual quadrant comprehends planning and strategy, and organizational development, and might be considered to be the home of the business and economic aspects of HR management. In fact, the entire business involvement issue for these executives may be seen as an outgrowth or enlargement of this one quarter labelled "big picture" or conceptual in nature.

Specialization and Organization of the HR Function

The top HR executive within a large corporation typically has specialized staffs to manage the technical subjects such as compensation, while concentrating on the larger business aspects of the function, in addition to planning. In Appendix A, eight organization charts from The Conference Board's Chart Collection identify these specialized technical areas, and show various configurations. Two of the charts also indicate relationships at the CEO level, and a number show types of decentralization, or interconnections with operating divisions.

The dominant message of these charts is that of variation. There seems to be no "typical" configuration of the HR responsibility. From this we might draw a first conclusion: The content of the HR function is determined by a *particular* business, a *particular* history—and, within a large corporate entity, by *growing differentiation* among businesses. In other words, it does not have "a life of its own." It is clearly an adjunct to the business, and takes its mission and shape from the needs of that business and its line executives.

Nevertheless, some specialties appear on nearly every chart (compensation and benefits, for example). Some aspect of employee development or training occurs in most charts. Labor relations occur in some, probably because union presence is the determinant. Other technical functions, such as planning, medical office or health and safety, information systems, and equal opportunity are found on many charts. The charts have not been standardized (other than removal of company identification), so that their variety of terminology and structural relationships is not compromised.

Because of the close connection between specialized functions and the nature and history of the business itself, the organization charts can be used for some informed guesswork about the companies involved. For example, *Chart 1* is probably a unionized manufacturing company—it has an "industrial relations" staff, even at regional levels, and a corporate "safety and environment" manager. The top HR executive in *Chart 2* carries the title "Personnel and Union Relations Director," in a company that seems to be either manufacturing-based or a public utility. *Charts 2* and *3* contain a section covering "security."

The presence of HR staffs dealing with "mergers and acquisitions" in *Chart 4* suggests a major role in corporate planning, and heavy consideration of HR issues in business initiatives.

Charts 5 and *6* depict a decentralized management strategy: The operating divisions have HR managers with a dotted-line relationship to corporate HR executives, but report directly to line managers at the division level.

Chart 7 shows great elaboration in the staffing of benefits, as well as an emphasis on compensation, yet it also shows an unusual title: "Manager of Productivity Improvement."

The two technical fundamentals of any HR department seem to be compensation and benefits: They are omnipresent. Technical specialization, especially in large corporations with numerous pay and benefits plans, is required. In many, both administration and planning are shown, and they may even be separated organizationally.

The relationships shown in HR organization charts represent several ways of organizing technical assistance to help operating executives, as well as an administrative structure. One of The Conference Board's Advisory Committee members commented that she is not at all threatened or disturbed when the CEO seeks detailed information about, for example, compliance with a new tax regulation. She is the top-level HR executive. She calls her manager of compensation, or benefits, into a conference with the CEO, "because they know the facts better than I."

Compensation and benefits are subjects that require the most extensive specialized knowledge, closely followed by employment/placement/planning, according to a survey of the Society for Human Resource Management.[1] For HR generalists, more knowledge is required if they are at higher corporate levels—or if they work in smaller organizations. Being high up *or* having to cover a lot of territory means having to know a great deal about all aspects of human resources.

Size of HR Staffs

The administrative personnel work of HR departments has been described and reported in a survey by the Society for Human Resource Management (SHRM) and The Bureau of National Affairs (BNA). There was some variation in the size of HR managerial and professional staffs by industry. Those with relatively heavy HR staffing seem to be industries that are either currently affected and protected by regulation, or recently emerged from regulation. Transportation, communication, utilities, and banking and finance had higher proportions of HR managers and professionals (see Table 1).

A systematic, but moderate, variation appears when size of business is taken into account. That is, the larger the business, the lower the ratio of personnel managers and professionals to total employment. There are modest economies of scale in the HR function.

Data from a comprehensive and detailed occupational survey of 514,400 business and non-business establishments show levels of HR managers and specialists by industry (see Table 2). These ratios are roughly half as high as those shown in the SHRM-BNA survey. An important reason is that the BLS survey was a far larger one, going to very small businesses that did not report any personnel staff (slightly more than half of all respondents did report personnel specialists or managers). In very small firms, HR management is a part of the responsibility of the operating business manager or proprietor. Ratios in Table 2 are reported in terms of total employment within each industry, not calculated in terms of personnel ratios within each business. A second point of difference is that it is likely that a survey covering all occupations within a firm will pick up fewer reported "personnel" specialists than one that is directed only to personnel respondents. While there is likely to be some implicit size effect, the BLS data also suggest that industry characteristics play an important part in determining the ratios of personnel staff to total employment.

Table 1: Median Number of Personnel Managers and Professional/Technical staff per 100 employees on firm payroll

Category (and number of respondents):	
Manufacturing (166)	.6
Transportation, Communications, Utilities (37)	.8
Wholesale/Retail Trade (33)	.4
Banking and Finance (56)	.9
Health Care (51)	.4
Government and Education (50)	.5
By size:	
up to 250 employees (124)	1.1
250 - 499 employees (82)	.8
500 - 999 employees (79)	.5
1,000 - 2,499 employees (105)	.5
2,500 or more employees (84)	.3

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Financial institutions (the second grouping in Table 2) have high ratios of human resources managers and professionals. In the financial grouping, those with *lower* HR ratios are, in fact, the businesses in which numerous small firms operate: real estate and insurance agencies. It is reasonable to conclude that there is something about financial institutions that requires a large personnel function. The possible explanations include a fiduciary responsibility that requires greater scrutiny and overseeing of personnel; or a need for more careful training and management of people in this personal service business.

Retail and wholesale trade (the fourth grouping in Table 2) has notably low levels of HR staffing. These businesses are generally very small. It seems likely that they are, in fact, so small that there is not even one full-time personnel manager. The business owner or line manager may actually be performing HR management during most of the day.

Manufacturing and mining industries (the fifth and part of the sixth grouping in Table 2) have relatively high ratios of HR managers to total employment. Possible explanations are greater levels of unionization and a long-term union presence, more hierarchical management structures that require staff back-up at each level, and generally older businesses. These characteristics might be applied equally to some of the transportation and utility industries in Table 2. They have been regulated industries, as well.

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[1] Walter W. Tornow, Jan S. Houston, and Walter C. Borman, "An Evaluation of the Body-of-Knowledge," *Personnel Administrator*, June, 1989, pp. 136-143.

Table 2: Average Number of Personnel, Training, and Labor Relations Staff per 100 employees, by industry

Industry	*Managers*	*Specialists*
Railroading	.18	.15
Local & suburban transit	.17	.10
Motor freight transportation	.12	.10
Water transportation	.21	.15
Transportation by air	.15	.23
Pipelines, except natural gas	.36	.42
Transportation services	.12	.06
Communications	.18	.38
Electric, gas, and sanitary	.27	.65
Depository institutions	.45	.44
Nondepository credit institutions	.36	.36
Security and commodity services	.20	.29
Insurance carriers	.30	.56
Insurance agents, brokers	.16	.09
Real estate	.10	.03
Holding and investment offices	.76	.88
Hotels, lodging places	.21	.12
Personal services	.06	.04
Business services	.35	.29
Automotive services	.06	.04
Miscellaneous repair services	.03	.03
Motion pictures	.17	.13
Amusement/recreation services	.10	.04
Health services	.11	.07
Legal services	.18	.19
Hospitals	.02	.04
Educational services	.07	.10
Social services	.25	.32
Museums, galleries, gardens	.26	.19
Membership orgs. (a)	1.51	6.14
Miscellaneous services	.18	.16
Wholesale trade—durable	.08	.09
Wholesale trade—nondurable	.08	.05
Building materials	.03	.02
General merchandise stores	.18	.31
Food stores	.06	.03
Automotive/gasoline stations	.03	n/a
Apparel and accessory stores	.06	n/a
Home furnishings, equipment	.06	.04
Eating and drinking places	.04	.02
Miscellaneous retail	.05	.03
Food and kindred products	.25	.15
Tobacco products	.25	.56
Textile mill products	.21	.11
Apparel and fabrics	.13	.05
Lumber/wood products (b)	.13	.06
Furniture and fixtures	.20	.11
Paper and allied products	.28	.19
Printing and publishing	.18	.13
Chemicals	.38	.38
Petroleum refining	.37	.54
Rubber and plastics	.24	.15
Leather products	.15	.07
Stone, clay, glass, concrete	.23	.13
Metal industries	.27	.23
Fabricated metal (c)	.23	.13
Machinery/computer eqpmt.	.27	.27
Electronic/electrical eqpmt.	.31	.35
Transportation equipment	.19	.46
Measuring/analyzing instruments	.31	.30
Miscellaneous mfg. industries	.21	.10
Metal mining	.26	.40
Coal mining	.35	.35
Oil and gas extraction	.23	.42
Mining, nonmetallic minerals	.15	.09
Building construction	.09	.02
Heavy construction	.10	.06
Government:		
Federal	.11	.89
State	.14	.63
Local	.13	.19

(a) except religious organizations
(b) except furniture
(c) except machinery and computer equipment

Source: Occupational Employment Survey (OES), various reference years (1985-87), U.S. Bureau of Labor Statistics

In terms of the whole economy, the large BLS survey can give a broad picture of the HR function—at least when it is clearly identified with a personnel "specialization." Much of what we have learned, of course, implies a blurring of the boundaries between general managers and personnel specialists, as business pressures require a less parochial and "professional" isolation in the function. Table 3 shows recent and expected future non-clerical employment in personnel training and labor relations, as carefully defined:[2]

Table 3: Non-Clerical Employment Projections to 2000

	1986	*Projected 2000*
Personnel, training, and labor relations:		
managers	150,030	191,920
specialists	220,700	267,200

The growth rates for both types of non-clerical personnel staff are higher than expected growth rates for total employment.

Overlap of HR and Line Management

If HR executives feel a tension between technical expertise and their growing role in enterprise operation, that is only part of the issue. As HR becomes blended with line management concerns, it begins to lose a separate staff identity and purpose. Could the separate function disappear gradually? In some companies, operating and line managers might begin to assume some aspects of HR functions as part of a complete management role. It may be that the "old" functional specialty (personnel management) is fading as management of HR becomes an aspect of general management. If such a blend develops, then technical work such as benefits administration, and compensation planning, will be done by specialists reporting to line managers.

An analysis of the activities of the HR department suggests that: "The constituencies in the operating levels have a strong preference for their HR departments to perform administrative and employee support activities, while the constituencies at the corporate level tend to emphasize planning and development activities that have organizationwide implications."[3] This may also intensify the conflict between maintaining technical expertise and having a role in top management.

Exhibit A is a complete job description for the top HR executive of a large corporation. It brings into focus the disparate claims of functional expertise and of the strategizing, top management role. For example, the first four paragraphs explicitly refer to specialized knowledge, and point out that there is expert subordinate staff to supply that knowledge. Nevertheless, the top position seems to require expertise and experience in nearly all these functional details. The second paragraph makes it clear that organization and management of staff is part of the job. It is evident that this position has been in existence for a long time, that a complete infrastructure already exists, and that, possibly, there is a deeply embedded culture within which the executive must function. (Along the lines of "The Effects of Previous Corporate Decisions," pp. 9-10.)

The fifth paragraph describes a capability to take initiative—but ever so softly. It implies that the HR executive can diplomatically create a demand for new policies and programs. Finally, it reminds the applicants that their role is also to represent the interests of employees. Appended to this job description is a list of qualifying experiences and training that stresses functional expertise in many kinds of HR fields, from labor relations law to social psychology.

Exhibit B describes an entirely different position. It is a HR job evolving in a new, rapidly-growing company that has not yet developed the function. If this were a plant, it would be called a "green-field" operation. As a result, there is more emphasis on recruitment and development, and on strategy for the firm. There is little reference to functional expertise, and it has a note of informality that Exhibit A lacks. This financial company clearly recognizes that its people are critical to service delivery, and intends that its handling of HR produces good service outcome. But it has had very little personnel management in its brief history. It is looking for a generalist; an advisor and consultant to top management on HR strategy; and it is not specifying technical expertise.

These exhibits represent a few of the factors that affect HR executives' roles: the size of the company; its "age"; the kind of industry and types of employees; the aftereffects of unions, of government regulation, or of employee litigation.

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[2] *Personnel, Training, and Labor Relations Managers*: Plan, organize, direct, control or coordinate the personnel, training or labor relations activities of an organization. Work involves establishing employee-relations policies; directing the selection, training, and evaluation of employees; administering benefits, safety, and recreation programs; developing wage and salary schedules; coordinating bargaining activities; and advising on labor contract administration.

Personnel, Training, and Labor Relations Specialists: Conduct programs of recruitment, selection, placement, training, promotion, welfare, safety, compensation, or separation of employees. May specialize in specific areas such as labor-management relations, counseling, job analysis, position classification, training, or compensation. *Excludes* occupations in personnel research and in the administration of testing and counseling programs for which a background in psychology is required.

[3] Anne S. Tsui, "Defining the Activities and Effectiveness of the Human Resources Department: A Multiple Constituency Approach," *Human Resource Management*, Spring, 1987, Volume 26, Number 1, p. 64.

Exhibit A: Senior Vice President, Human Resources

Position Profile

This position represents the personnel point of view in the strategic and operational direction of the business. The incumbent is expected to provide, with the support and concurrence of the President, a philosophy and guiding principles for managing the human resources of the company. Authority is limited to the protection of the company's interests in relation to laws and regulations pertaining to personnel. The position directly impacts all functions and areas of the company in matters of morale, management practices, employee well-being, compensation, benefits, structure, and development. The incumbent is expected to positively affect these matters through his/her personal influence and professional credibility rather than vested authority.

This position requires an incumbent with broad managerial and professional knowledge and experience. From the managerial standpoint, the Human Resources group comprises ten interrelated yet disparate functional areas: personnel relations, compensation, benefits, training, organization development, recruiting, personnel administration, field personnel services, communications and home office personnel services. The current staff consists of 75 people, including 42 professionals. The incumbent also has functional responsiblity for personnel services to four distribution centers. Budget administration responsibilitics approximate 29.7 million.

On the professional side, with the exception of the directors of compensation and staffing and of human resource development and the managers of benefits and of media projects, virtually all staff members have been developed inside the company. Technical and professional direction and training rest with the incumbent. The incumbent is expected to provide the company with systems, programs, and processes which effectively support business goals and organization values. The company's principal executives rely on the incumbent's personal experience, skills and resources to bring the company to current "State-of-the-Art" status.

Critical competency requirements include preventive labor relations, personnel/labor law, compensation practices, benefit practices, training and organization development practices, and employee involvement processes. The company's widespread training needs are especially important at this time. The incumbent must have highly developed consulting and communication skills.

Although the incumbent is not expected to create or invent systems and programs, he/she is expected to introduce successful practices new to and adapt them to the company's particular needs. The incumbent must be able to judge when to act and when not to act with patience and persistence. He/she must be able and willing to modify actions to gain agreement and consensus. The incumbent must be able to place the priorities of the company over those of the personnel function. At the same time, the incumbent is expected to be a strong advocate for employee interests and well-being.

Candidate Qualifications

Broad experience is required in the following areas:

- personnel/labor relations in both organized and unorganized situations, including union-free policies and practices, organizing campaigns, unfair labor practice charges, arbitrations, labor contract negotiation and administration
- personnel policy formulation, communication and administration
- corporate culture change, including the facilitation of improved organization effectiveness
- human resource development with special emphasis on all facets of training; but also including organization planning, succession and manpower planning, performance standard/expectations, performance review, personal/management development, assessment of management potential, organization development, career pathing and recruitment/selection process
- compensation programs, including job evaluations, wage and salary plan design and administration, short- and long-term incentive plan design and administration, bonus and gain-sharing plans
- benefit programs, including the design and administration of health care, dental, life and disability insurance and of defined benefit/contribution plans, vacation, sick pay, holiday and other policies
- corporate communications, using print, video and other media, including booklets, newspapers and other publication, institutional and informational videos and meetings of management personnel
- participatory and responsive management, including use of employee and other involvement processes (PC's), project management/task force/focus group techniques, attitude surveys, and bottom-up (suggestion, coffee hours, "Express Yourself," hotline, etc.) communications
- human resource information systems, including the development and utilization of cost/time effective reports and analyses
- departmental direction, management and administration, including staff selection, training/development and deployment; short- and long-term departmental planning, project management, program development and execution, delivery of human resource services, budget development and administration.

(Source: material used by the search firm Kenny, Kindler, Hunt and Howe, New York City)

Exhibit B: Position Specification: Vice President - Human Resources

The company is a leading firm in the field of options and futures trading and risk management. It has grown to an organization of over 600 people and is active on 12 domestic exchanges as well as international markets. Its approach stresses extensive interaction among the trading, quantitative research, fundamental research, and systems groups and places particular emphasis on state-of-the-art technology in carrying out its activities. As the firm continues to grow and increase in complexity, including expansion into customer-driven service categories, it is committed to maintaining the highest caliber of people and providing them with career development and training, and exemplary working environment and reward systems. To accomplish this, the company seeks an exceptional professional to provide strategic leadership and direction in addressing a wide range of human resource issues.

Principal Responsibilities—Working within a relatively unstructured partnership environment, the Vice President-Human Resources will be responsible for dealing with the full scope of human resource matters on a day-to-day basis. This will involve development of overall strategies, near- and long-term planning, training, compensation and recruitment. In addition, he/she will establish ongoing programs focused on optimizing internal communication with employees. This individual will collaborate closely with the General Partner of the firm whose overall responsibilities include human resources. The successful candidate will undertake the delicate task of introducing the appropriate level of human resource disciplines to an entrepreneurial culture while maintaining and enhancing the creative processes and team-oriented approach that characterize the organization. This person will interface with all levels of the firm as he/she assesses strategic priorities and implements the human resource charter.

Requirement—This position calls for an individual having a particularly strong generalist background in human resources with specific experience in training and development, human resource planning, and compensation and benefits. Ideally, this person will have gained experience in an organization noted for the quality and innovativeness of its human resource operations, policies and procedures. The successful candidate should relate well to technology and to individuals who are highly quantitative and entrepreneurial. The Vice President-Human Resources should have demonstrated ability to be an agent of change and have succeeded in implementing the innovation and installation of responsive and forward-looking human resource policies. It would be helpful if this person had made the transition from a structured environment with well-defined approaches to human resource issues into an entrepreneurial setting and had dealt with a wide range of personalities and perspectives. It would also be helpful that the successful candidate have direct experience with human resource matters offshore. A balance between responsiveness to the needs of the organization and forcefulness in presenting his/her point of view is important. The successful candidate should bring a consultative approach to the human resource function leading to the creation of flexible programs in a diverse and changing partnership environment.

Recommended Charter for Improving the Human Resource Function—This successful private partnership of traders and entrepreneurs, through rapid growth and diversification into more customer-driven services, has now much more complicated requirements for human resources management. The partners recognize a need for a full-time human resource professional working in close concert with the partner in charge of human resources to implement the following priorities:

- design and implement a human resource planning process and systems
- expand and professionalize the training and development program worldwide
- manage and evaluate the compensation practices and performance measurement criteria
- preserve the company culture while nurturing other new cultures brought about by the additions of technology and customer-driven services including the assimilation of outsiders
- establish a formal employee communications program

The changes must be accomplished without sacrificing current organization strengths such as: entrepreneurial spirit, collaborative environment, pervasive partnership attitude, lack of structure, lean/no bureaucracy, common sense approach to users, highly humanistic/high importance in people treatment.

A proven professional is needed to relieve the partner in charge of the function from its day-to-day management, freeing up this partner for longer-range planning and policy issues.

Assumptions:

- A planning/development/compensation management is viewed as an imperative by the members of the Management Committee
- The partner responsible for human resources will sponsor and support integration of the new Vice President of Human Resources into the organization
- Most day-to-day decisions within the firm's strategic framework of a human resource nature will be delegated to the new Vice President of Human Resources; in other words, there will be a clear delineation as well as some intended overlap of decision-making between the partner in charge and the Vice President of Human Resources

Consistent with other private partnerships, there is a relatively moderate salary or guaranteed compensation with a heavy incentive component emphasizing performance and overall profitability at the principal level.

(Source: material used by the search firm Kenny, Kindler, Hunt and Howe, New York City.)

The Evolving Role of the Top HR Executive

What is the heart of the top human resources job? When Rex Adams, vice president for administration at Mobil Oil Corporation, was asked this question, his answer was, "It depends." The content of the job depends on the particular history of the firm, its industry, market position, and the objectives and style of its chief executive.

The current needs of the specific business have become the major influence on the activities of the HR executive. Yet the external facts of available labor supplies, compensation levels, and social and political climate also carry some weight. As one member of The Conference Board's Council explained: "The old HR executive was a product of his environment: an environment of plentiful, if not surplus, labor resources, and relatively scarce capital and other resources. So careful management of employees was overlooked. We managed organizations in such a way as to discourage ingenuity and initiative! Now, the labor resource is scarce. So, since we are all products of this new environment, the HR manager has become crucial to business advantage in the company."

Some Attempts to Define the Role

HR executives are usually part of the top business management team. They focus on furthering the firm's objectives. Their relationship to the CEO or COO is essentially supportive. Says Adams: "The top HR executive works with the top management group to provide all organizational requirements for moving (this) particular business in (that) particular direction, while thinking in ten-year lead times. This is the essence of 'being a member of the business management team.' "

Relationships with other line management involve providing direction and specific help. In other words, the firm's HR strategy, worked out by the top-level "team," is affected by the actions of line managers and supervisors with regard to their employees. A cost reduction strategy, for example, would be carried out in compensation redesigns and in many variations of productivity-enhancing actions, as well as in "downsizing" and restructuring the firm's activities.

Gaining (and keeping) credibility and trust is an important aspect of the HR role. Whose trust? Answer: the top executive team; line managers and supervisors; and all employees. In some cases, maintaining the trust of these three groups is difficult—perhaps impossible where their objectives are incompatible. For example, HR executives feel burdened by representing employee interests that occasionally disagree with the interests of the CEO. Policies, too, can be geared to employee concerns and made less expressive of managerial prerogative and control. A HR executive who has the respect and confidence of the CEO can become influential on behalf of other managers or of lower-level workers. Yet, it is clear that this is a very delicate piece of work.

Advisory Role

In dealing with line management, a HR executive may take on the role of "internal consultant."[4] The personnel specialist may gather information and provide analysis that line management needs for decision-making and may also offer advice on a particular course of action. Being an insider can be advantageous because the organization and its culture are already known and a trusting relationship already exists. On the other hand, these advantages may threaten independence and creativity and ultimately undermine any suggested changes.

Madelyn Jennings, senior vice president, personnel of Gannett Company, Inc., created a diagram that encompasses the roles of the HR executive (see Chart B, p. 18). She makes the role of catalyst paramount, but draws upon four other aspects of the job that appear in the paragraphs above. The "knowledge professional" has a technician's expertise but uses it specifically to support, not administer. The "negotiator/influencer" is a communicator and may also be a representative of

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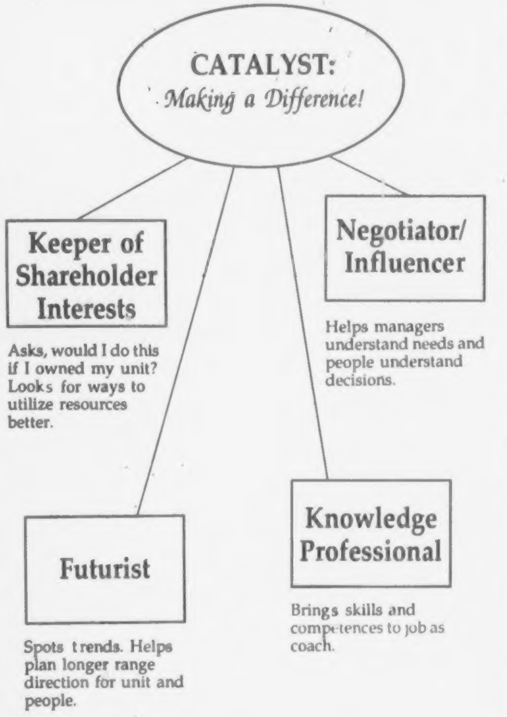
[4] Thomas J. Hackett, "The Real Role of Personnel Managers," *Personnel Journal*, March, 1988, pp. 70-75.

Chart B: Role of Human Resources


CATALYST:
Making a Difference!
Keeper of Shareholder Interests
Asks, would I do this if I owned my unit? Looks for ways to utilize resources better.
Negotiator/ Influencer
Helps managers understand needs and people understand decisions.
Futurist
Spots trends. Helps plan longer range direction for unit and people.
Knowledge Professional
Brings skills and competences to job as coach.

Source: Gannett Company, Inc.

employee interests. The "keeper of shareholder interests" is clearly concerned with the economics of the business itself—the interest of the top management team. Finally, the "futurist" is a business strategist who is sensitive to the external facts and trends that will ultimately affect the business.

A group of professors at the University of Michigan attempted to measure the importance of these roles by studying how other corporate colleagues evaluate the performance of human resources executives. Although their measures seem abstract compared with the kind of critical incident or anecdotal accounts that provide colorful insight, the size of the study commands respect. Dean Joseph White describes this in the box on page 19.

Advisor to the CEO

The most important aspect of the top HR executive's role seems to be that of counselor to the CEO, particularly with regard to strategy. Even though many HR executives speak of "programs" (a term that seems incongruent with strategy counseling), the programs themselves are responses to broad business needs. For example, if the firm develops a new business strategy to create and market a reputation for quality products, that strategic plan may be carried out through an intensive quality "program." This quality program may itself embody a new training "program," making the HR executive a facilitator for the broad realization of business goals.

A need for more flexible costs was perhaps the strongest strategic imperative of the '80s. The responsibility for change fell on the shoulders of work force managers. Costs of capital and of raw materials are both relatively fixed to the business purchaser or "customer."[5] In many ways, the cost of new technology is also fixed. That leaves the *cost of a business's work force*—total payroll—as the major opportunity for flexing business costs. That fact may explain the growing strategic importance of work force management. Not only is payroll a substantial part of total business operating cost; it is the *only* cost that is malleable.

Attaining flexibility in total payroll costs can be accomplished in many ways. Most directly, the compensation system can be made more responsive to business conditions and to individual performance by linking it closely with the firm's experience. With careful preparation, pay freezes and pay cuts can be introduced.

More broadly, payroll costs can be reduced by redeploying workers and managers, shifting their functions, and changing the structure of a firm's operations. This makes the entire work force, including its managers and executives, more fluid and responsive to market changes. Change and adaptive restructuring become a way of life for the company—a way to survive, in many cases.

Finally, the aggregate payroll can be sharply cut and reshaped by using either "outside" workers or by contracting out parts of an operation. For example, a company may decide to purchase maintenance services, engineering design, or public relations —eliminating internal corporate staffs. Contracting out also allows the company to use a specialized service company. If the service is inferior or too expensive, that contract can be shifted elsewhere, or renegotiated. Similarly, a company can deal with individuals or groups of workers on a contingent basis, hiring them for a specified task for a limited period. Contingent, temporary workers may form start-up staffs, or may be needed only for installing a new computer system; consultants can be hired for specific projects. In a sense, all of these techniques for flexing total payroll are simply "make or buy" decisions. This kind of outsourcing has been the chief way in which costs are being restructured—fluidized—

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[5] For example, at any particular time, the "costs" or interest charges of a bond issue or a bank loan are given for the borrowing firm, as are the returns from a new issuance of stock. The costs of raw material, or of production technology, are set in a market in which each purchasing firm must deal.

Human Resources Directions in the 1990s: A Report on Two Surveys

by B. Joseph White

Associate Dean, School of Business Administration, University of Michigan

A 1989 study by Dave Ulrich and others at the University of Michigan proposes that three sets of competencies of the HR executive may be identified as follows:

- Knowledge of the Business: The extent to which an HR professional understands the financial, strategic, and technological capabilities of an organization.
- Delivery of Human Resources: The extent to which an HR professional is an expert in the function and delivers high quality, state-of-the-art, innovative HR practices. These practices fall into six categories: staffing, development, appraisal, rewards, organization design, and communication.
- Management of Change Processes: The extent to which an HR professional is able to increase an organization's capability for change. This involves demonstrating the attributes of an outstanding change agent: able to diagnose problems, build relationships with clients, articulate a vision, set a leadership agenda, solve problems, and implement goals.

These competencies "enable the HR professional to enhance organizational capability to meet customer requirements, to be an active member of the management team, and to demonstrate staff leadership by establishing a vision of how HR practices empower organizations to meet customer needs by generating commitment to the vision, and by institutionalizing policies and practices which execute the vision."[1]

This survey tested the hypothesis that HR professionals who demonstrate competence in each of these three domains (knowledge of business, delivery of HR, and management of change processes) will be perceived by their work associates as more effective.[2] In brief, this survey reports how 8,900 HR associates perceive the competencies of 1,400 HR professionals in 91 major North American firms.

Measures:

- For knowledge of business, 16 business activities or functions central to business operations;
- For delivery of HR practices, 21 total HR practices across the six HR categories presented earlier;
- For management of change processes, 30 behaviors that reflect ability to manage change processes;
- For overall performance of the HR professional, a scale that asked the Associate to respond to the following: "Overall, compared with other HR professionals you have known, how does the participant compare?"

Results:

Performance in virtually all of the items used to measure the three areas of competencies related strongly to Associates' overall perception of the competency of the Human Resource professional. Most interesting are the results of the statistical analysis intended to determine the relative contribution of each of the three competency domains to the Associates' overall perceptions of the effectiveness of the HR professional.

These relative contributions (to a high competency rating) are: knowledge of business (16.5 percent), delivery of HR practices (23.6 percent), and management of change processes (42.7 percent).

The top management of change competencies are:

1) Is visionary
2) Establishes trust and credibility in relating to others
3) Takes a proactive role in bringing about change
4) Expresses effective verbal communication
5) Builds supportive relationships with others
6) Encourages others to be creative
7) Identifies problems central to business success
8) Puts specific problems in context of the larger system
9) Clarifies roles and responsibilities
10) Emphasizes cooperation within the management team

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[1] Dave Ulrich, Wayne Brockbank, and Arthur Yeung, "Human Resource Competencies in the 1990s: An Empirical Assessment." Working Paper, The University of Michigan, 1989.

[2] Ninety-one firms, most in the Fortune 200, participated. Participation meant that the senior HR officer identified HR professionals in business units through the corporation as "Participants" and personally invited these Participants to join in the research. In total, 2,100 participants were identified. Each was sent a packet with 10 surveys: one that he/she completed, 9 that they distributed to their work "Associates" (subordinates, peers, clients, or supervisors familiar with their competencies).

now. Moreover, the largest cost-saving advantage in contingent employment systems is reduction in paid non-productive time: the company is paying only for the worktime needed.[6]

Not all of the decisions on this technique are being made by HR executives. Other managers may be the purchasing agent. Yet, it is unlikely that a concerted effort to reshape costs by outsourcing would be made without HR's advice and assistance. One senior HR executive of a large service firm has referred to his company (and his function) as "renting behavior" from contractors, outside providers, and even its own employees.

If all employment relationships are becoming more fluid, then "contract" is the best way to describe them. Behavior-rental contracts can become a cost effective mode for operating a business. In a more competitive, downsizing business world, managers may begin to see all employees (including themselves) in terms of arm's-length contractual exchanges. An additional benefit of such agreements is that performance or expected output standards must be specified. They would therefore be more objective and businesslike than expectations in a traditional group enterprise.

The drawback is that loyalty and shared values will not develop on contract. That overused word "vision" (in the sense of coherent purpose) cannot be applied to a working enterprise that is merely a web of contractual arrangements. Thus the top HR executive must also undertake some melioration of the effects of hard-nosed cost-cutting, insofar as they destroy the sense of mutual endeavor among employees.

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[6] Audrey Freedman, Testimony, "Rising Use of Part-Time and Temporary Workers: Who Benefits and Who Loses?"; Hearing, Committee on Government Operations, House of Representatives, May 19, 1988, pp. 35-40.

From Origins to 1990

The most pronounced characteristic of the human resources function is that it retains all of the issues that contributed to its development over seven decades. Having grown by accretion, the function retains themes and specialized concerns that arose in previous eras, even as it becomes blended with general management.

Perspectives on the HR Function

Where did the whole task of Personnel begin? How did corporations come to create a separate "function" to handle their employees? After all, workers are integral to the entire production process, as is capital equipment. It is imaginable that finance or sales might become an operation logically and organizationally separated from production. But managing workers? Employees were and are, in fact, managed by their line supervisors in hierarchical reporting structures. Yet about seven decades ago a separate, staff personnel function began to develop in large corporations. Then it spread to all but the smallest business firms within four decades.

Terminology for the function has shifted over the years, from "personnel," to "industrial relations" and "employee relations," and finally to "human resources." While all of these terms are still in use, the slowly shifting terminology matches a shifting management perception of work forces and what they do. Because of this, a modern-day understanding of the HR function requires some attention to its origins.

Social Work

At the turn of the last century, some large corporations in industries such as textiles, steel and railroading began to establish employee welfare departments, commonly under the stewardship of "secretaries." In textile mills especially, employers felt some moral responsibility for the very young girls who constituted their labor force. Entrepreneurs may also have been inspired by the utopian ideals of Robert Owen's New Lanark mills in nineteenth-century England; the social secretaries offered their assistance to masses of factory workers.

It was fundamentally social work, and was intended by enlightened employers to provide mutual aid, group activities (often of an educational nature), savings clubs, and some melioration of working conditions and the health hazards of factory life. The secretaries organized reading circles and recreation, "wash-up" and locker facilities, rest periods and emergency care, and charity drives. Decades later, some analysts described these welfare efforts as a constructive reaction to the appeal of unions. However, in contemporary thinking, the secretaries were distributing charity from a generous and modern employer to those in his care.[7] Their modern-day equivalent might be the organized Employee Assistance Program, or alcohol and drug abuse counselling, preventive health programs, and other helpful personnel activities.

Immigration

During the first World War and in the decade immediately following, profound changes occurred in the U.S. work force. Of greatest impact was immigration. Shortly after the turn of the century the flow of immigrants greatly increased, and remained high until war intervened (see Chart C, p. 22). The ease of finding work in the U.S. was perfect advertising for opportunity; the result was a steady supply of new "greenhorn" labor to factories and construction gangs.

The benefits to labor-hungry industry were obvious. Low-cost workers built the steel, machinery, clothing, leather and many other consumer goods industries; mined coal and copper; built roads, bridges, railroads, and tunnels. Native citizens were present too, but were also engaged in agriculture and rural development far

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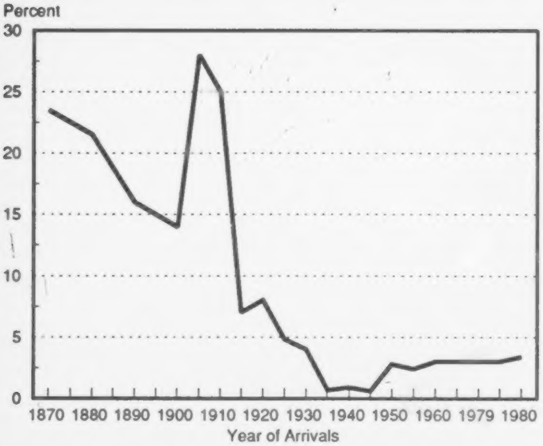
[7] Cyril Curtis Ling, *The Management of Personnel Relations*, Homewood, Illinois, Richard D. Irwin, Inc., 1965, pp. 75-82.

Chart C: Immigrant Arrivals of Working Age as a Percentage of Civilian Labor Force, 1870-1980



Note: For 1920-80, Immigrants 16 years old and over; for 1900-15, immigrants 14 years old and over; for 1870-90, immigrants 15 years old and over.

Note: Julian L. Simon, The Economic Consequences of Immigration, Cambridge, Mass., Basil Blackwell, Inc., 1989.

from the packing plants, breweries, foundries, and caissons of the big cities.

Immigrant flow was the highest that it has ever been, relative to the native population, during the decade before World War I. It was never more than about 3 percent of the base population in any year, but the size and concentration of the flow began to worry native Americans. A reaction of concern, particularly about "foreign influences," began to build. At the same time, urban school systems were burdened with children who spoke many European languages other than English, and who would only be in school a short time before entering a laboring life.

For employers, the benefit of a huge supply of low-cost, willing labor was accompanied by its polyglot characteristic. Though it may have been difficult to supervise workers who were called "grunt" labor because they could not communicate, the production and construction methods of the time required energy and brawn, not intellectual skills. Nevertheless, it is possible to imagine the setting of that period and discern one cause of the rise of a personnel office: factories manned by shifts of hundreds, perhaps thousands, of laborers who spoke their own language and seemed different in every way from their bosses. Worker "masses" replaced the manageable craft workshop with what amounted to a class system in the plants.

A second related development was unionism. These masses of workers were certainly suspected of being potentially revolutionary. They were a threat to the old order. Pressure for shorter hours grew, higher wages were demanded. Safety and occupational health issues were raised publicly. In some cases there was even a challenge to the arbitrary rule of plant bosses. One reaction was violence: the suppression of strikes and organizing with owner armies or state militia. Another class reaction was to identify worker movements with anarchists; Russian Bolsheviks; "agitators." A more constructive response to worker unrest was to establish, within mass production industries, the beginnings of an employee relations function.

Thus, the first seeds of formal personnel management were planted by massed labor, by concentrated immigration, and by union organizing. At about this time, 1916 to be exact, The National Industrial Conference Board was established to address these concerns. Its first managing director, Magnus Alexander, was an industrial relations analyst who published several reports on turnover and its costs—an important issue during the labor shortages of World War I.[8]

Unions

The unions that grew most rapidly were those that, sooner or later, matched the mass production model. Their appeal was made to the huge bottom layer of workers, not to individual craftsmen. The unions sought pay levelling as well as equal treatment for all in a plant or industry. Some even called this objective "industrial democracy" or the rule of law, as opposed to individual, arbitrary treatment of workers.

That very same policy of uniform treatment can be established without a union, responded the employers, with a personnel policy administered by a personnel department. Hiring could be managed more fairly than the "shape-ups" of earlier decades. Firing could be put under administrative regulation. Wages could be scientifically established. Even supervision could be managed. Following this line of reasoning, employers set about to make unionism unnecessary by adopting its objectives in the newly-formed staff function. Only the adversarial theme was omitted.

Such a review of origins makes it clear that the personnel function was created as a response to an external impetus. Union pressure, external to the management of the firm, required an internal adjustment. So personnel reflected that pressure in every aspect of its responsibilities. To put it bluntly, the personnel department owed its existence and importance to the unions.

The early functional specialties in personnel fit this general picture. Of major importance was wage-setting and wage adjustments, which frequently included piece rate systems. By the late 1930s, union avoidance occupied personnel staffs. Firms that were already unionized devoted the majority of their personnel attention to negotiation and administration of union contracts, including grievance and arbitration matters. This represented the skeleton of the personnel function on the eve of World War II.

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[8] Ling, pp. 370-71, 514-15.

Expansion of Personnel Administration During World War II

Wartime conditions had the obvious effect of requiring wage (and price) controls. Somewhat more subtle was the need to enlist the entire work force at home in the war effort to raise production, and the need for high domestic unity and morale. Unions were a strong existing organization for effecting all these national purposes. Their political influence grew. They became central to industrial mobilization, the wartime allocation of scarce labor, regulated wages and working conditions. If the U.S. ever has an "industrial policy," its model might be found in the operations of the War Labor Board and similar institutions.

Employer personnel offices took on the same configuration and purposes. After the war, an entire union-management system had been erected and was in place to dominate the 1950s and 1960s. One of the minor details of wage controls, the development of "fringe benefits," became an area of expertise. Another, industry-wide pattern bargaining, remained an objective even after wartime wage controls had been repealed. Labor (union) relations were still the most powerful influence on the personnel function. Academic institutes focused on labor-management issues. "Personnel" became "industrial relations."

Specialization

In large corporations, the personnel function had developed as a centralized staff response to specific external pressures. Its departmental configuration matched those pressures, and was highly specialized. By the 1950s, the major technical specialities were:

- labor relations (including union avoidance)
- wage determination and systems
- benefits design and administration

These three subject areas developed sub-specialties, covering the technical details of particular corporate systems. For example, benefit administration might have staff devoted to trust-funded, supplemental unemployment benefits, or to pension management. Or, a heavily unionized firm might have staff specializing in grievance handling and arbitration.

Emergence of Employee Relations

In many cases, this dominance of labor relations issues caused a breakout of a separate personnel function for non-unionized employees. While the industrial relations departments operated by the book of union contracts and government labor relations regulation, a non-union employee relations function focused on compensation systems. Gradually, it also began to move into recruitment and employee development and training. A social service interest in workers' home lives added low-key employee assistance and counseling in larger firms.

By the 1960s, executive compensation and managerial reward systems began to develop specialized approaches. In most cases they were viewed as part of the personnel function. Thus, there emerged the following specialized staffs in the non-union wing of "personnel" (as separate from the union "industrial relations" function): compensation, recruitment, training and development, succession planning, and managerial reward systems.

Government

Government regulation and external pressure also played a part in the development of personnel. At its union-generated conception, national and state legislation protected union organizing and bargaining, and shaped employer activities around the administrative regulations. This gave the personnel field a legal flavor from the late 1930s onward. More and more, labor lawyers framed the HR strategies of private business.

Compliance with minimum wage regulations, as well as working-hours restrictions and occupational licensing, was more of a purely administrative matter lodged in the personnel function at the plant or establishment level. These activities were assisted by handbooks and looseleaf services designed to guide technical and clerical staff in detailed compliance with the increasingly elaborate regulations and court decisions.

Then, in the mid-1960s, government began to regulate employment and promotion policies to produce equal opportunity for blacks. An expansion of this interest eventually included women, the elderly, and other groups. This brought government into the internal personnel operations of all but the smallest companies. It was a response to public concern about the employment practices of private business.

Business, again responding to external pressure, added another specialty area to personnel: equal opportunity. It was to become primarily a compliance function; but it touched upon recruitment, training and development, compensation policies, and even labor relations, changing most of them in fundamental ways. Gene Remoff of ARA Services observed:

> "Title VII did something else, I think. While it challenged many of the shoddy, ill-conceived practices of companies and their industrial relations/personnel functions on the basis of EEO concerns, it also forced a clean up of these practices for all employees. A good example is the required house cleaning

on invalid, unreliable paper-and-pencil tests. A lot of those EEO regulations made good sense from a personnel practices point of view. We were now being called to task by a set of standards. I believe it was a major push forward in the professionalization of the function."

Government Role as of 1977

Perhaps the single most important change, however, has been the increasingly active role taken by government in company personnel matters. Well over two-thirds of the 673 executives surveyed for this report regard government as a major force for change in personnel management over the past ten years. This governmental role is currently centered in three areas of regulation—equal employment opportunity, occupational safety and health, and pension reform. However, a large number of companies participated in the primarily voluntary government-sponsored manpower training and development programs during the years 1968-71, and other governmental activities have had, and are expected to have, major impacts on the personnel management of specific companies. All of these changes, but especially the need to comply with government regulation, have gone far to change management thinking in many companies as to what the personnel function is all about.

Allen R. Janger, *The Personnel Function: Changing Objectives and Organization*, Report no. 712, New York, The Conference Board, 1977

Further Federal regulation of pensions and benefits occurred during the 1970s and 1980s. Moreover, national concern about threats to public health led to occupational health and environmental regulations that are still growing.[9] Today, even the personal habits of employees (in alcohol and drug use, for example) are becoming a public policy and regulatory interest.

The external challenge presented by unions, government regulations, or individual and group lawsuits has been a major determinant of the importance of personnel staff to corporations. Without that threat, the personnel function would be of much less consequence—it might never have developed in the first place. Essentially, the message was that a personnel misstep might cost the corporation millions of dollars (see pages 25-26). This drove public policy deep within the economic concerns that dominate the strategies of private industry.

Competition Introduces a New Element

Competitive pressures—arising from imports and from deregulation—introduced new business emphases during the 1980s. Old-line, well-administered corporations were forced to cut costs, improve productivity, become more flexible and responsive, and raise quality. None of these new demands can be met by following rulebooks and procedures.

This caused personnel to become "part of the business." Even the terminology shifted toward an economic phrase based on productive resources (i.e., capital, natural, and human resources). Business needs brought economic considerations to the forefront of the newly-renamed "Human Resources" function.

This growing competitive pressure did not create new subspecialties, as did the earlier, externally-determined procedures. It simply shifted the dominant influence in managing employees toward business considerations, efficiency, and conservation of resources on a grand scale. Competition established a cost-cutting ethic. It required more flexible pay formulas, and less fixed, long-term employment.[10] Competitive conditions restructured the corporate entity many times, and HR reallocation was at the heart of each reorganization.

Why should the spotlight have fallen so heavily on human resources? Because the cost of labor is the only business cost that can be "managed." Other resources—capital, raw materials and resources, and technology have relatively fixed prices and relatively fixed, or "sticky" costs to a producer of goods or services. But labor costs can be made responsive quickly and fairly easily with good HR work.

Labor costs are being managed with innovations in all of the specialty areas, as well as some new emphases on labor allocation. Some functions can be purchased, subdivided in new ways, and the business "downsized" and restructured to fit new markets and service needs. More use can be made of contingent workers—contract, temporary, free-lance, and part-time. Compensation can be revised so that a substantial proportion is determined by incentive. Quality labor can be found by marketing jobs and the employer's reputation to an untapped segment of the population, rather than by engaging in a bidding war with other employers. Training can be used to develop self-management among workers, thus raising efficiency and rapid response.

In adopting an enterprise-based agenda, the HR function became integrated with line management thinking. While HR retains its external relationship role, it has moved far beyond the rulebooks of personnel handbooks, union contracts, and court decisions. In many cases, it has become seamlessly connected to line management in the operation of the business.

That gives rise to some problems. Corporate management of HR is surrounded and constrained by its past. Nevertheless, professional and academic advisors may create the impression that a "new era" has begun (or, sometimes, a new management fashion). The HR manager feels pressure to adopt a completely new policy and culture in one revolutionary sweep. More than most executives, these managers know that the company is living with the present effects of history.

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[9] Audrey Freedman, *Industry Response to Health Risk*, Report no. 811, The Conference Board, New York, 1981.

[10] Audrey Freedman, "How the 1980's have changed industrial relations," *Monthly Labor Review*, Vol.111, no. 5, May,1988, p.35.

Institute for Personnel Managers—Boston University
The Comprehensive Agenda

I. Today's Rules of Recruitment, Interviewing and Hiring

- Immigration law requirements—and penalties.
- Exactly what kinds of specifications are banned from "help-wanted" ads because they discriminate on the basis of race, sex, age, religion or national origin.
- When you can legally rely on word-of-mouth advertising or referrals to identify prospective job candidates.
- What questions may and may not be asked of job candidates on application forms or during job interviews.
- Employment standards that may present discriminatory problems; customer/co-worker preferences, educational level, language fluency, experience requirements, physical fitness, arrests or convictions, relatives of present employees and credit checks.
- Avoiding discrimination in the way you assign employees to particular jobs.
- The four ingredients of a prima facie case of discrimination in hiring.
- The current potential for legal liability in the physical exams you administer to your employees—before and after employment.

II. Today's Rules of Performance Appraisal and Promotion

- The most important features of court-approved performance appraisal systems.
- Your current legal obligation to conduct regular, unbiased performance appraisals and how to avoid negligence in doing so.
- Eight legally fatal defects in most performance appraisal systems.
- Where employment discrimination may now arise in procedures for employee bidding on jobs, predetermined job progression paths, promotion based on seniority lists, job upgrading and job training opportunities.

III. Today's Rules of Termination—Employment-at-Will and Unjust Discharge

- When "just cause" can be found in insubordination, poor attitude, unsatisfactory job performance, poor attendance or criminal activities.
- How to discern when there may not be a "public policy" exception to the traditional legal doctrine of Employment-At-Will: termination based on refusal to commit a crime, willingness to serve jury duty, pursuit of legitimate political activities, or filing a discrimination complaint against the employer.
- The most current explanation of the concept of "whistle-blowing" and when you may use it as a basis for firing an employee.
- How you may be setting yourself up now for a complaint of "abusive discharge."
- The specific circumstances under which language in your job advertisement, offer letter, application form or employee handbook may not be interpreted as an express or implied contract of employment, precluding arbitrary discharge.
- The importance of progressive discipline.

IV. Today's Rules of Affirmative Action and How To Meet Them

- The present legal status of affirmative action programs: Are they required or simply advisable?
- The special affirmative action obligations of organizations now doing business with the federal government.
- Are the affirmative action obligations for smaller businesses now different from those for Fortune 500 corporations?
- How to conduct a required EEO utilization analysis and then act properly.
- Where "quota-type" affirmative action plans stand after the U.S. Supreme Court decision in the Memphis Firefighters case.

V. Today's Rules of Sex Discrimination

- Forms of discrimination based on a woman's pregnancy, abortion, childbirth or related medical conditions.
- How to take into account factors such as sexist leadership skills, aggressive selling ability, physical strength, combative skills or family responsibilities--without discrimination on the basis of sex.
- Situations where sex may constitute a Bona Fide Occupational Qualification.
- When you may now allow the preferences of coworkers, customers or the public to affect your hiring decisions.
- Steps you may take to protect the fetuses carried by your pregnant employees.
- Potential sex discrimination problems in your pension or retirement plan.

- When a seniority system that perpetuates prior discrimination will and will not be acceptable to the courts.
- Statements which constitute evidence of discrimination.

VI. Today's Rules of Sexual Harassment

- What kinds of "sexual harassment" may now constitute employment discrimination.
- The difference between "sexual harassment" and "innocuous social interaction."
- The employer's different levels of liability depending on the "employment consequence" of the harassment.
- When does sexual harassment create a legally-prohibited "intimidating, hostile or offensive" working environment.
- How legally to avoid the serious complaint of constructive discharge through sexual harassment.
- The latest EEOC regulations and recent court cases.

VII. Today's Rules of Handicap Discrimination

- Current, working definition of the term "handicap" and a listing of physical and mental conditions it encompasses.
- The special affirmative action duties of federal contractors with regard to handicapped job candidates and employees.
- Language of the Federal Rehabilitation Act with which you must be familiar.
- Are you covered by state law banning employment bias against the handicapped?
- How much money must you spend and what changes must you make in order to satisfy the legal requirements of "reasonable accommodation."
- The legal issues of AIDS in the workplace.

VIII. Today's Rules of Age Discrimination

- Demographics of the typical age discrimination complainant.
- Which age groups are protected in what kinds of employment situations.
- The deadly potential liability of state age discrimination statutes.
- Specific age-related language which may or may not be used in job ads.
- When age may be a Bona Fide Occupational Qualification.
- Current details of possible defenses against charges of discrimination under the federal Age Discrimination in Employment Act (ADEA).
- Guidelines on your several defenses to a charge of discrimination on the basis of "reasonable factors other than age": workforce cutbacks for economic reasons, job elimination through merger or acquisition, misconduct or job performance.
- How big is the loophole of the ADEA's mandatory retirement exception?
- The time bombs of the "front pay" and "liquidated damages" remedies uniquely available under the ADEA.
- Statements which constitute evidence of age discrimination.

IX. Today's Rules Concerning Problem Employees and Employee Assistance

- Your current responsibilities when employee's personal problems affect their performance on the job.
- The only acceptable guidelines for acting on your suspicions that an employee is engaged in criminal activities.
- When "work force morale" may be a legitimate reason for disciplining an employee or terminating their employment.
- How to straighten out employees whose sub-par performance has been tolerated by a previous supervisor.
- Handling employees whose job performance is mediocre, but not bad, or fluctuates between satisfactory and unsatisfactory.
- The employee who is a constant source of well-intended complaints about company operations and whose work is quite satisfactory.
- Recommended steps for handling specific kinds of employee disciplinary problems (tardiness, absenteeism, fighting, insubordination, alcohol/drug abuse).
- Employee assistance programs.

X. Plus—The Current Law Enforcement Climate Re: Employment Discrimination

- The current legal mandates and procedures of the key law enforcement agencies in employment discrimination: Equal Employment Opportunity Commission (EEOC), Office of Federal Contract Compliance Programs (OFCCP), Department of Labor (DOL) and state Human Rights or Equal Employment Opportunities agencies.
- Current and changing enforcement attitudes and the tactics agencies will use to compel your compliance.
- What an EEOC "charge" is and how it differs from a full-blown court suit.
- Current ploys and strategies of employees and their lawyers for squeezing a monetary settlement out of you.

The Future of Training

As HR management becomes increasingly critical to business operations, training for the job gains importance. The "easy" matters concern technical training in specialized areas like compensation or benefits administration. Somewhat broader subjects focus on developmental work, such as the principles of employee and managerial training itself, career management, recruitment and selection.

The broader concerns are the most difficult. For example, should HR work be a part of all managerial training since it is an essential aspect of managing? Or, perhaps the hardest question, what exactly is the unique content of HR management training? Is it a separately identifiable "discipline?" Is it a discipline at all, in the academic sense, or more of a performance art that is acquired on-the-job rather than through formal education?

Technical Training

Specialized training in such subjects as compensation and benefits administration, or compliance with government regulations, is readily available from professional societies, training institutes, and the extension departments of universities. The pattern seems to be for people who have been hired or promoted into technical HR jobs to take short courses. These one-day to week-long courses provide detailed guidance and, usually, step-by-step manuals for carrying out one program or element in personnel work. The reason for this type of training is that a course in the details of regulatory compliance has no part in general academic work. Yet it is essential knowledge for personnel specialists, usually at a point where new tax laws, pension regulations, or compensation plans are being introduced. A listing of some of these short-term training institutes (see box) indicates their timeliness and specificity.

Some longer post-graduate courses cover broader and less technical aspects of HR responsibilities. An example is "The New Human Resource Executive: Leadership at the Policy-Making Level" sponsored by the Institute of Labor and Industrial Relations at the University of Illinois and the SHRM. In this case, course content includes demographic and social trends, organization development "principles, concepts, and theories," economic pressures, aspects of psychology, labor/management matters, and organizational structure, among other subjects.

Beyond these courses lie the employee development fields of expertise. For example, HR departments are themselves trainers of other employees and managers. They usually handle recruitment and selection of new employees, and career management in the firm. A background education in psychology, counseling or sociology is useful, though not always required.

Some of the short-term course material offered by professional associations and university extensions deals with subjects such as training in corporations. Corporate development programs may be taught as legal, technical subjects, or they may be based on the

Titles of Selected Technical Courses in Personnel

Issues in Personnel Law
Strategic HR Planning
Preventing Employee Lawsuits
Performance Appraisal
Designing and Implementing Incentive Compensation Strategies
Job Evaluation and Pay Administration
Effective Employee Communications
Workers' Compensation Administration
Designing a Flexible Benefit Program
Benefits and the Law
Interviewing: a Strategic Approach
Equal Opportunity/Affirmative Action
Developing and Conducting Employee Opinion Surveys
Job Analysis
Preventing Sexual Harassment
OSHA Compliance
How to Hire and Supervise Handicapped Individuals
Basic and Advanced Wage and Salary Administration
Employee Discipline and Grievance Handling
Negotiating and Administering a Labor Contract

Personnel Accreditation Institute

Since PAI first began accrediting HRM professionals in 1976, it has established an acknowledged standard—its nationally recognized codified body of knowledge for the HR field.

Why Accreditation is Important to You

For you, accreditation can mean:

- National recognition of professional achievement
- An unparalleled opportunity to demonstrate mastery of the HRM Body of Knowledge
- A career aid for advancement
- Process builds pride and confidence in your HRM decision-making
- A personal challenge to stay abreast of new developments in HRM
- If you are a specialist, the accreditation process assists in gaining command of the body of knowledge across all HR functions
- A visual reminder of your professional status—through display of your earned designation on business correspondence and handsome Certificate of Accreditation

Eligibility

The Personnel Accreditation Institute grants accreditation after the applicant has:

1. Verified current full-time professional exempt experience in the field as either a practitioner, educator, researcher or consultant, and...

2. Passed a comprehensive written examination to demonstrate mastery of knowledge.

To earn the basic generalist designation PROFESSIONAL IN HUMAN RESOURCES (PHR) you must have:

- Four years of professional HRM exempt experience

OR

- Two years professional HRM exempt experience and a bachelor's degree
- One year professional HRM exempt experience and a graduate degree

AND

- Pass a comprehensive examination

As a HRM professional, accreditation in human resource management is vitally important to you and to maintaining the high standards of the profession.

The Personnel Accreditation Institute is a research and accrediting non-profit organization founded by SHRM. Contributions to PAI are tax-deductible under the provisions of Section 501(c)(3) of the Internal Revenue Code. Merit award points are granted to any SHRM affiliated chapter sending a donation to the Institute and/or inviting and Institute spokesperson to present a program on HRM accreditation.

Source: *Who's Who in HR, 1990 Directory*, Society for Human Resource Management, p. 58.

psychology of learning and growth. Similarly, recruitment and selection courses based on avoiding litigation tend to be highly technical. However, when recruitment/selection is directed toward building a strong work force, it is likely to be based more broadly on the philosophy and methods of appraising skill, experience, and personality.

Society for Human Resource Management

Some 44,000 members of the professional Society for Human Resource Management (SHRM) are working in the field in the U.S. The SHRM provides network and information services, local and national meetings, publications, and professional accreditation that includes experience and a qualifying examination.

In 1989, this group was titled the American Society for Personnel Administration, and its magazine was *Personnel Administrator*. Significantly, its title has become broader, and bureaucratic implications have been excised. SHRM is the U.S. member and a founder of the World Federation of Personnel Management Associations.

SHRM offers a variety of services that educate and keep human resources managers up-to-date in personnel management techniques, legal and legislative developments, and movements in the economy that affect employment. The members' two main information channels are publications and meetings—though electronic networking is beginning to supplement other means of gathering facts and help.

The magazine and newspaper/newsletter output includes analyses of issues such as drug testing, work-and-family considerations, or effective recruitment methods; discussions about legal trends, court decisions, and new government regulations; reports about the representation activity of the Society before Congress, and a legislative update; and survey data on wages, benefits, and other personnel matters. Monographs on specific subjects, guidebooks, and manuals are published regularly, sometimes in conjunction with The Bureau of National Affairs or Prentice-Hall/Simon Schuster.

SHRM holds a large national annual conference and many regional meetings, as well as state-level and local chapter gatherings.

A training issue arises in the accreditation activity of SHRM. Its Personnel Accreditation Institute aims to create a clear-cut professional path for HR as a "specialist" group (see box). However, the two levels of certification fully acknowledge practical experience in the re-

The Education and Training of Human Resource Management/Personnel Specialists

by David Lewin

Professor of Business Columbia University

Where do human resource management/personnel specialists receive their training and what type of training do they receive? There is no single answer to this question. New personnel specialists are typically recruited from colleges and universities upon completion of the bachelor's degree. The fields represented by such "specialists" include psychology, economics, social psychology, sociology, social work, and business administration, among others. Further, some of these entry-level specialists receive their academic training in schools and departments of industrial relations, such as those found at Cornell, Illinois, Minnesota, Iowa and other universities.

What most of these programs, except perhaps business administration, do not provide is a business or organizational context for personnel management studies and practice. Consequently, the entry-level personnel specialist recruited from an undergraduate program typically has little knowledge of business strategy and policy, marketing, accounting, finance, operations, research and development, and other components of business enterprise.

Perhaps for this reason, there has in recent years been some upgrading of the recruitment and selection of new personnel specialists. Specifically, businesses are increasingly drawing on graduates of MBA programs to staff personnel departments. In addition, however, many of these same organizations have replaced the departmental and job title of "personnel" with that of "human resources." While changes in terminology sometimes represent a bandwagon or fad effect, this change apparently signals an upgrading of the personnel function to reflect a higher level, more strategic approach to the management of HR in business organizations.

It is ironic, then, that relatively few MBAs in the U.S. specialize in HR management; most concentrate in finance, marketing, international business, and other specialties, despite the fact that most MBA programs offer one or another type of concentration in HR management. The bottom line is that the demand for HR management (or personnel) specialists by business is very unlikely to be filled by a supply of MBA graduates.

What of the practicing HR management/personnel specialist? The numbers of such technicians are expected to grow manyfold during the '90s (see data in Chapter 1). Where does this individual receive specialized training or development? One "answer" seems to be in the one and two-day seminars, conferences, and workshops conducted by such organizations as the American Management Association, American Compensation Association, International Personnel Management Association, among other organizations.

Other HR managers, especially at mid- and senior-levels, take week-long, off-site programs, usually acquiring a certificate of completion. What does not exist in this field is a uniform set of training and developmental experiences, standard requirements for knowledge maintenance and upgrading, or, most basically, certification for entry to the field.

It remains true that there is no single route into HR management and no common set of standards by which to judge new entrants to the field. Much of what practitioners learn in this area continues to take the form of on-the-job training. Whether or not this approach will serve the HR management specialty or business organizations more effectively in the '90s is a question well worth pondering—as is an alternative approach featuring common academic training, developmental experiences, and, above all, certification on a one-time or recurring basis.

April 1990

quirements shown. In fact, even a graduate degree must be accompanied by at least one year of HR experience to attain the lower of two levels of accreditation. An examination is also administered for both levels.

Academic Training

Most top-level HR executives have completed postgraduate work, much of it at graduate schools of business.[11] However, few graduate with a concentration in human resources. In fact, the American Association of Collegiate Schools of Business (which accredits business schools) does not even include HR management as a required subject within MBA programs.[12] The standard curriculum of many business schools has recently been re-examined and criticized. Its emphasis on marketing and financial management is seen as too limited. In an interview,[13] Richard Cyert, president of Carnegie Mellon University, observed:

> "Q: Has the great post-World War II American business school expansion been a failure?
>
> "A: I wouldn't say it's been a failure, but certainly its weak spots have been exposed. Our business schools have let down society by not doing a better job of truly studying management. Looking at human resources and human-resource development, looking at questions of how you improve productivity, how you involve your work force to do a better job—these are the kinds of things we should have been doing"

---

[11] *Human Resource Executive*, September, 1988, p. 45.

[12] David Lewin, "The Industrial Relations (IR) Content of MBA Degree Programs in the U.S.," *Proceedings of the Forty-First Annual Meeting of the Industrial Relations Research Association*, Dec. 28-30, 1988, p. 475.

[13] *Wall Street Journal*, April 13, 1990, p. B-1.

Is Human Resources a Separate Profession?

The observations of academics presuppose some sort of formal training that can be clearly identified as "human resources management" by subject. This moves in the direction of a professional identity. Yet the other side of this story is one of general management (e.g., the management of an enterprise or organization through the people who work within it).

Many of the top HR executives on The Conference Board's Advisory Council referred to this activity. They are advisors and counselors to the CEO; they are members of the executive committee; they are part of acquisition teams; they may set up and run a new business within the firm. These job activities are undertaken within the company, as general management. They are not part of a "profession" with external identity and ties.

Some of these roles were discussed at a Wharton School meeting of CEOs, top HR executives, and faculty. The focus was on what are often called "soft" aspects—society, teamwork, accountability, involvement, capability of the work force, human outcomes of business shifts, needs for security, interpersonal relationships, structure of organizations, mutuality and participation. Implicitly, the group knew that these subjects comprise a good deal of CEO concerns.

But, in contrast, business objectives are "hard": strategies and actions directed toward making money, prevailing against the competition, and surviving as an organization. That is the hard economic command.

The interplay of soft and hard is present in all businesses. So the HR aspect of all management jobs is to mediate between these two realities: the hard reality of economic objectives, and the soft instrument of human society and behavior.

Exhibit A: Organization Charts for the Human Resources Function

Chart 1

Human Resources

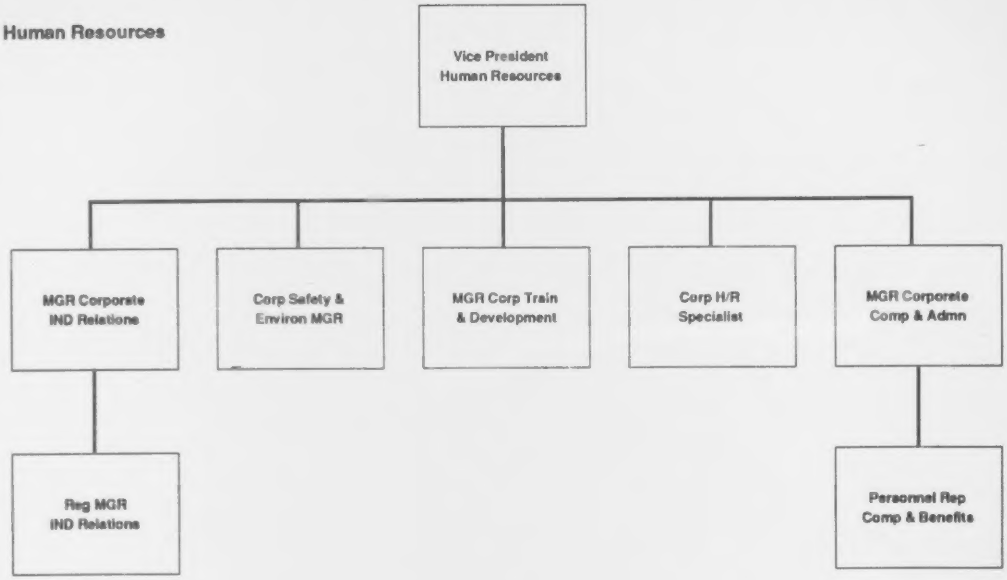
Vice President
Human Resources
MGR Corporate
IND Relations
Corp Safety &
Environ MGR
MGR Corp Train
& Development
Corp H/R
Specialist
MGR Corporate
Comp & Admn
Reg MGR
IND Relations
Personnel Rep
Comp & Benefits

Chart 2

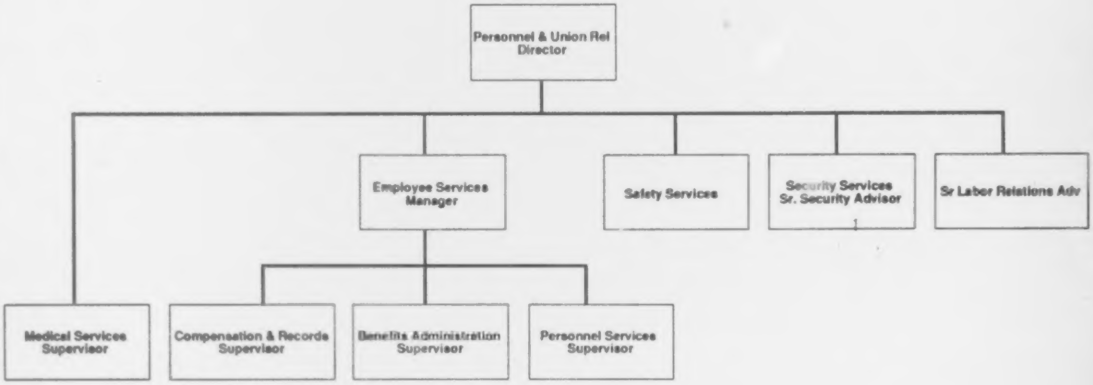
Personnel & Union Rel
Director
Employee Services
Manager
Safety Services
Security Services
Sr. Security Advisor
Sr Labor Relations Adv
Medical Services
Supervisor
Compensation & Records
Supervisor
Benefits Administration
Supervisor
Personnel Services
Supervisor

Chart 3

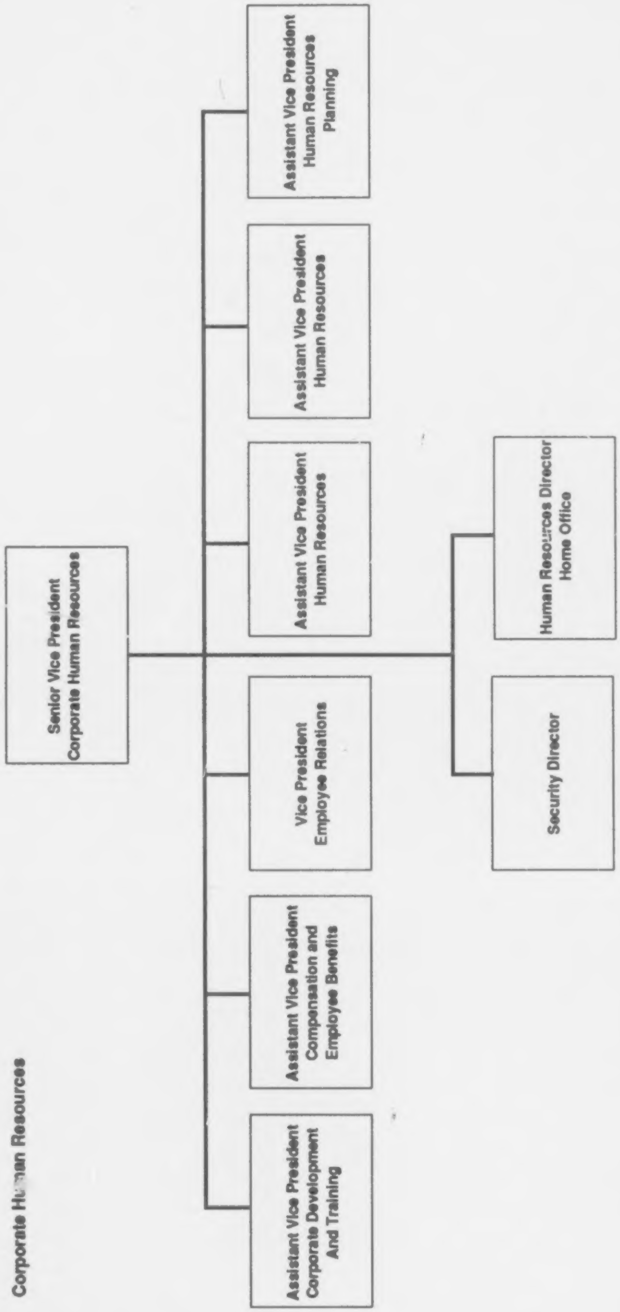
Corporate Human Resources
Senior Vice President
Corporate Human Resources
Assistant Vice President
Corporate Development
And Training
Assistant Vice President
Compensation and
Employee Benefits
Vice President
Employee Relations
Assistant Vice President
Human Resources
Assistant Vice President
Human Resources
Assistant Vice President
Human Resources
Planning
Security Director
Human Resources Director
Home Office

Chart 4

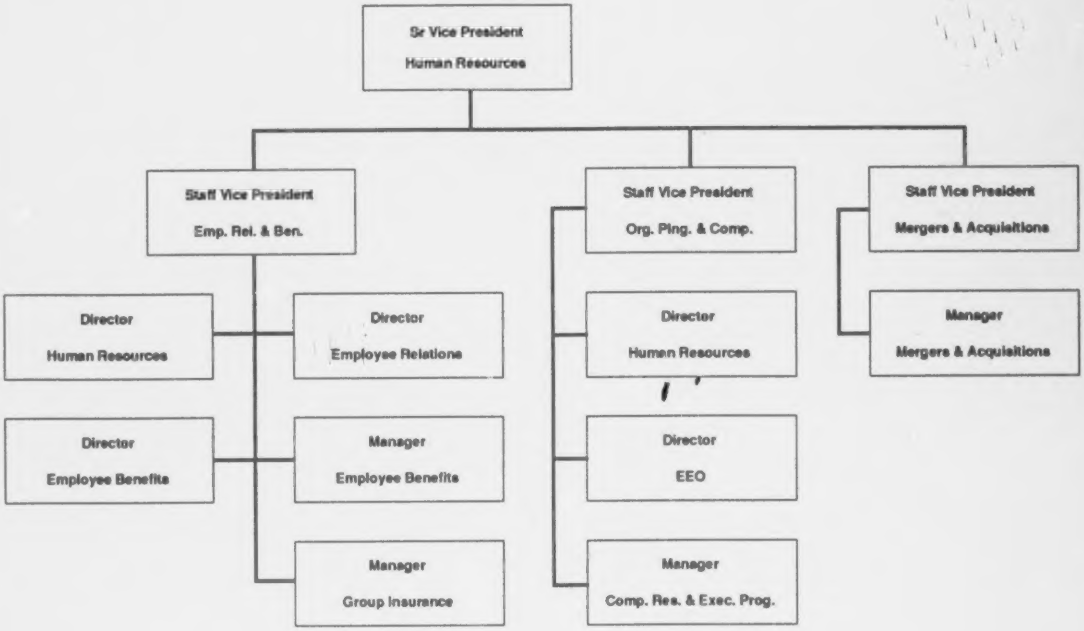
Sr Vice President
Human Resources
Staff Vice President
Emp. Rel. & Ben.
Staff Vice President
Org. Plng. & Comp.
Staff Vice President
Mergers & Acquisitions
Director
Human Resources
Director
Employee Relations
Director
Employee Benefits
Manager
Employee Benefits
Manager
Group Insurance
Director
Human Resources
Director
EEO
Manager
Comp. Res. & Exec. Prog.
Manager
Mergers & Acquisitions

Chart 5

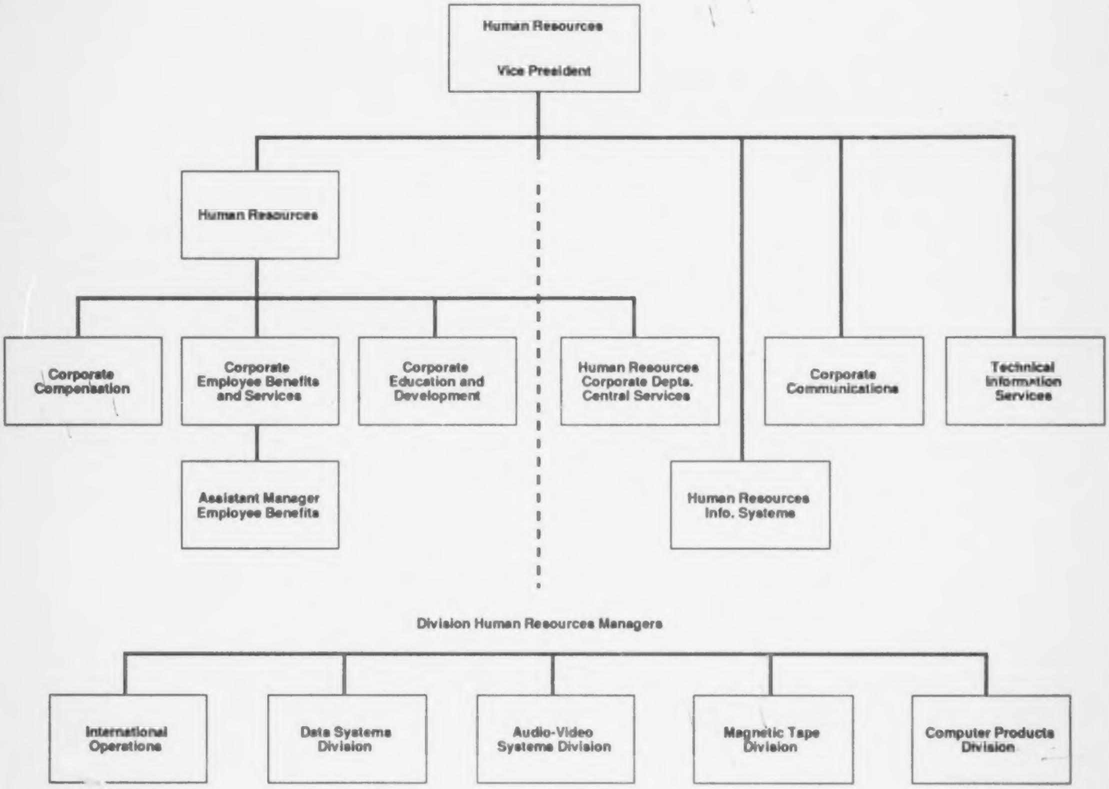
Human Resources Vice President
Human Resources
Corporate Compensation
Corporate Employee Benefits and Services
Corporate Education and Development
Human Resources Corporate Depts. Central Services
Corporate Communications
Technical Information Services
Assistant Manager Employee Benefits
Human Resources Info. Systems
Division Human Resources Managers
International Operations
Data Systems Division
Audio-Video Systems Division
Magnetic Tape Division
Computer Products Division

Chart 6

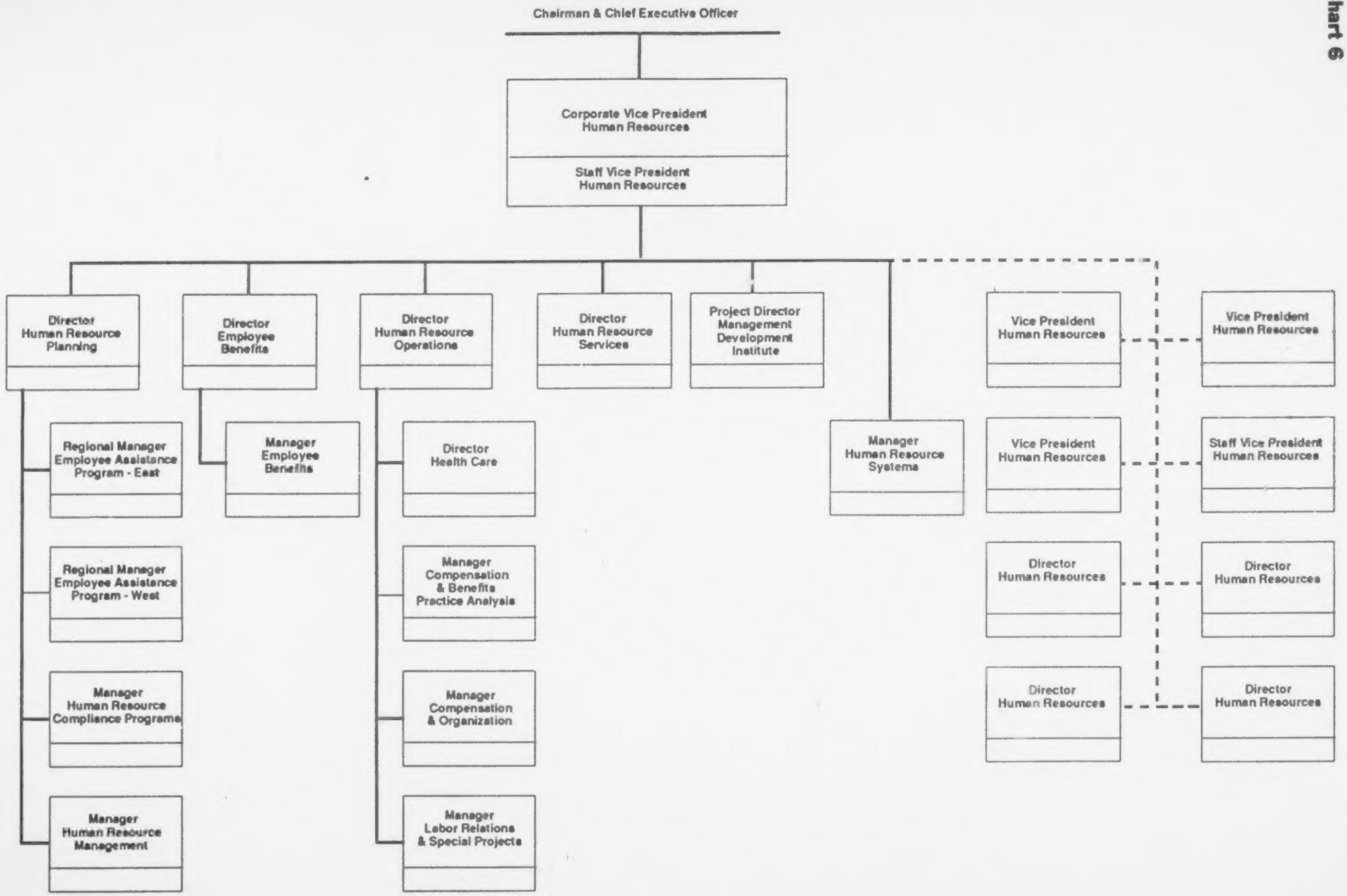
Chairman & Chief Executive Officer
Corporate Vice President Human Resources
Staff Vice President Human Resources
Director Human Resource Planning
Director Employee Benefits
Director Human Resource Operations
Director Human Resource Services
Project Director Management Development Institute
Vice President Human Resources
Vice President Human Resources
Regional Manager Employee Assistance Program - East
Manager Employee Benefits
Director Health Care
Manager Human Resource Systems
Vice President Human Resources
Staff Vice President Human Resources
Regional Manager Employee Assistance Program - West
Manager Compensation & Benefits Practice Analysis
Director Human Resources
Director Human Resources
Manager Human Resource Compliance Programs
Manager Compensation & Organization
Director Human Resources
Director Human Resources
Manager Human Resource Management
Manager Labor Relations & Special Projects

Chart 7

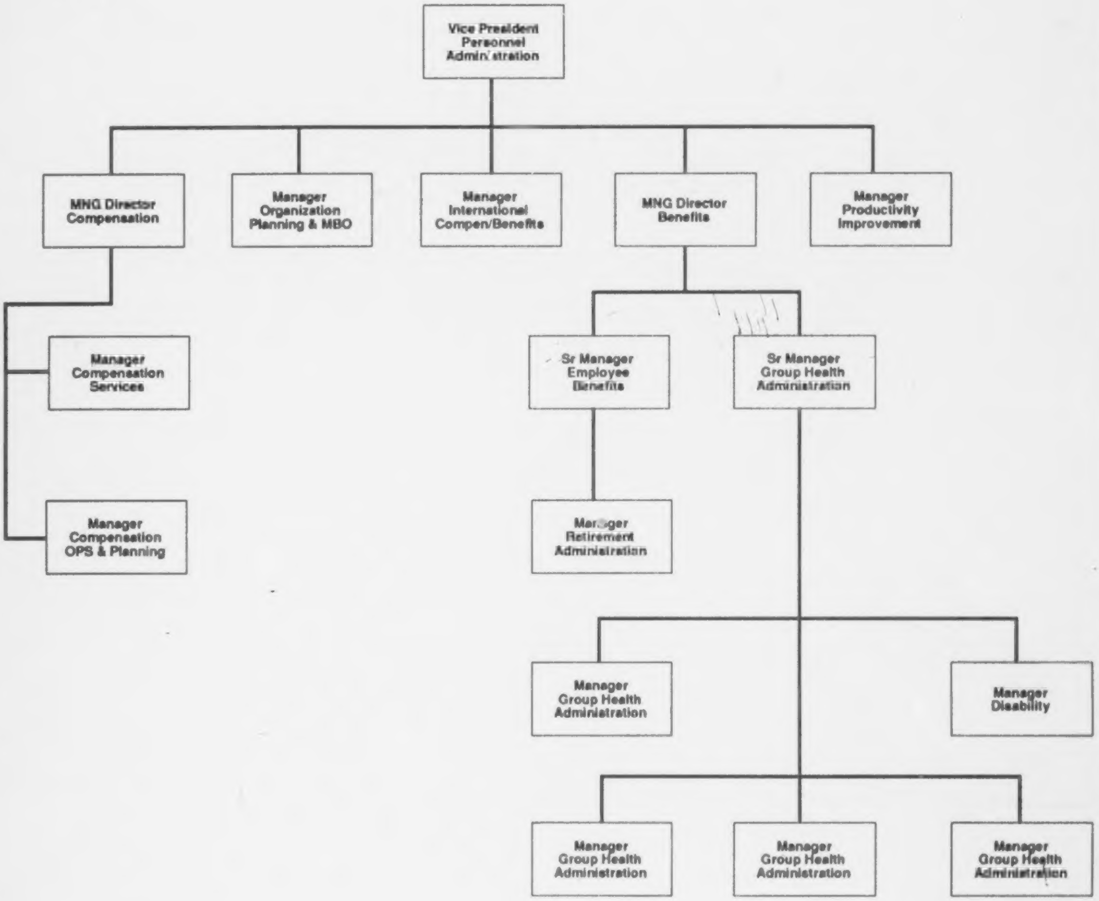
Vice President Personnel Administration
MNG Director Compensation
Manager Organization Planning & MBO
Manager International Compen/Benefits
MNG Director Benefits
Manager Productivity Improvement
Manager Compensation Services
Manager Compensation OPS & Planning
Sr Manager Employee Benefits
Sr Manager Group Health Administration
Manager Retirement Administration
Manager Group Health Administration
Manager Disability
Manager Group Health Administration
Manager Group Health Administration
Manager Group Health Administration

Chart 8

Employee Relations Department

- CHAIRMAN OF THE BOARD OF DIRECTORS & CHIEF EXECUTIVE OFFICER
  - SENIOR VICE PRESIDENT-EMPLOYEE RELATIONS
    - Executive Secretary
    - VICE PRESIDENT-BENEFITS ADMINISTRATION
      - Administrative Assistant
      - Manager-Noncontributory Pension Benefits
      - Manager-Contributory Pensions, Savings & SUB Benefits
      - Manager-Insurance Benefits
      - Administrative Assistant-Health Cost Containment
    - Manager-Executive Compensation
    - Director-Personnel
      - Manager-Personnel Planning
      - Manager-Organization & Personnel Planning
      - Manager-BIMS
      - Manager-Employee Services
      - Manager-Employee Services
    - General Manager-Compensation
      - Manager-Compensation
      - Manager-Compensation Services

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The Conference Board

Report Number 951

The Marketing Plan in the 1990s

- *The vertical links between marketing and corporate strategy are tightening*
- *Marketing plans are more customer-oriented*
- *The service sector has dramatically increased emphasis on marketing*

About The Conference Board

Founded in 1916, The Conference Board's twofold purpose is to improve the business enterprise system and to enhance the contribution of business to society.

To accomplish this, The Conference Board strives to be the leading global business membership organization that enables senior executives from all industries to explore and exchange ideas of impact on business policy and practices. To support this activity, The Conference Board provides a variety of forums and a professionally managed research program that identifies and reports objectively on key areas of changing management concern, opportunity and action.

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The Marketing Plan in the 1990s

by Howard Sutton

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About the Author

Howard Sutton is the author of *Competitive Intelligence* and *Rethinking the Company's Selling and Distribution Channels*, published by The Conference Board, and *Contemporary Economics*, published by Holt, Rinehart and Winston. He was a Senior Research Associate at The Conference Board from 1984 to 1990.

Before joining the Board, he was a reporter for *Consumer Reports* magazine, a producer of films for "Sesame Street" and other educational programs, and a vice president at Needham, Harper & Steers, an advertising agency. He is currently a speechwriter and communications consultant in New York.

From the President

"The marketing plan embodies, in capsule form, a company's realistic hopes and intentions for competing successfully in the marketplace...It is a virtual treaty by which general management and senior marketing management are able to negotiate delegated responsibilities for the company's marketing effort."

These words, from The Board's 1981 report on marketing planning, are still true today. However, there have been changes. One of the most significant of these is a much more deliberate effort to have the marketing plan mesh with the overall plan for the business. Marketing is now considered integral to corporate strategy. Top managers are more likely to provide preliminary guidance for the preparation of the marketing plan and to insist on final approval.

The Conference Board appreciates the participation of the executives who responded to our survey and who gave generously of their time in follow-up interviews. Without their assistance, this report would not have been possible.

PRESTON TOWNLEY
President and CEO

Acknowledgments

The Conference Board thanks Dr. Peter R. Dickson, Crane Professor of Strategic Marketing at Ohio State University, for his valuable assistance in designing the questionnaire, reviewing drafts, and conducting follow-up interviews of survey respondents.

The author also wishes to acknowledge the editorial contributions of Margaret Hart, senior editor, research publications, at The Conference Board.

Executive Summary

Competition has produced several significant changes in the marketing planning process and the form of the plan itself.

Rediscovering the Marketing Concept. This is the idea that the central purpose of a business enterprise is not to produce goods or services but to acquire and satisfy customers. The marketing concept emerged in the 1950s, but, in the intervening years, in many companies it has proved to be a comforting cliché rather than a guiding principle. With the increase in competitive pressure from Europe and Asia, U.S. companies have been compelled to relearn the importance of focusing on the customer.

Marketing: A Top Management Responsibility. Managers at the highest level of the business unit have become much more involved in making marketing decisions. Top managers are not only more likely to provide preliminary guidance to those who prepare the marketing plans, but they are also more likely to insist on having final approval.

Integrating the Marketing Plan With the Strategic Plan. One of the most significant changes in the planning process is a much more deliberate effort to have the marketing plan mesh with the overall plan for the business. Where marketing used to be considered a relatively independent operation, it's now considered integral to the corporate strategy.

Integrating the Marketing Function with Other Functions. As the vertical links between marketing and corporate strategy have tightened, the horizontal links with other departments, such as manufacturing, engineering, research and development, and finance, have also tightened. Managers expect and get more input from people in other parts of the organization. There is also more emphasis on working as a team.

The Changing Role of the Marketing Executive. With the increased emphasis on teamwork, there seems to be less emphasis on functional differences. Marketing executives are now likely to see themselves as professional managers first, and specialists second.

Planning as a Continual Process. Because markets are changing faster than ever before, marketing planners have become much more conscious of the need to modify their plans throughout the year. Plans are subject to frequent review and revision. The main impetus for revision is to counter competitive moves.

Changes in Content. The contents of marketing plans have changed. The plans are now much more customer-oriented, they contain more competitive analysis, and they are better reasoned and more realistic than they used to be.

Changes in the Service Sector. Banks, insurers, transportation companies, and other representatives of the service sector have shown a dramatically increased interest in marketing. As a result, they are making a concerted effort to improve their planning, their plans, and the implementation of their plans.

Problems and Prospects. For those who have to assemble marketing plans, the main problem is getting the necessary cooperation—the right amount of input in the planning stage and the right amount of commitment in the implementation stages. Managers report that the main shortcoming of marketing plans is that they aren't realistic enough. For example, there may be a lot of pressure to set overly optimistic goals, or the planner may simply not have enough information to produce a competent plan. Nevertheless, the participants in this study were quite confident that their companies would rely even more heavily on marketing plans in the future.

Method

The data were collected in two stages. In the first stage, a six-page questionnaire was mailed to 1,216 executives with marketing, sales, planning, and marketing research titles, in major corporations in the United States, including several that are subsidiaries of large European and Japanese firms. Completed questionnaires were received from 223 executives. About half of the respondents reported on the practices of the company as a whole; the other half reported on the practices of a particular unit or division. In a few cases, there were responses from different units of the same company. About three quarters of the respondents had the rank of vice president or higher.

In the second stage, lengthy follow-up interviews were conducted with 13 respondents who had provided unusually rich material in their questionnaires. These interviews have been drawn on throughout this report to amplify the survey findings.

The survey responses have been divided into three groups, according to the type of company represented by the respondent: manufacturers of products sold to industrial users, manufacturers of products sold to consumers, and companies that chiefly supply services. Some of the questions were the same as those included in our 1980 questionnaire, and, where the responses were significantly different, there are charts that illustrate the changes.

This report is the latest in a continuing series of research investigations of marketing planning in corporations. It updates David S. Hopkins' *The Marketing Plan (Conference Board Report 801, 1981).*

The Planning Process

> There is only one valid definition of business purpose: to create a satisfied customer. It is the customer who determines what the business is. Because it is its purpose to create a customer, any business enterprise has two—and only these two—basic functions: marketing and innovation. [1]
>
> *— Peter F. Drucker*

Competition has forced many managers to come to the same conclusion. This report deals with the first of those two basic functions: marketing.

Marketing has become much more important than it was just a few years ago, and marketing executives are focusing much more carefully on their customers. The results of a Conference Board survey show that the *process* of preparing a plan is more important than the document itself. As General Dwight Eisenhower said during World War II, "Planning is everything, plans are nothing."

A marketing plan does compel attention, though. It makes the marketing team concentrate on the market, on the company's objectives, and on the strategies and tactics appropriate to those objectives. It's a mechanism for synchronizing action.

A marketing plan is often referred to as a living document. It's the product of a great deal of discussion, analysis, innovation, thinking and rethinking. To borrow Joseph Schumpeter's provocative term, the planning process is an act of "creative destruction."

Although the marketing planning process can be described in a linear fashion—as in Diagram 1 (on page 10)—it may be more appropriate to think of the planning process in general as a circular flow—as in Diagram 2 (on page 10). The plan may be published on a particular date every year, but imposing a deadline is usually simply a device for making sure that the team agrees on the key ideas and projects, and that those ideas are transferred into print.

Purpose of the Plan

The plan has three purposes: to communicate the team's intentions to top management, to justify budget requests, and to give the marketing team points of reference for charting progress—week by week, month by month. In commenting on how the marketing team thinks of the plan, one executive stressed that the plan must be continually useful and easy to change:

> You can't put together a plan, put it up on the shelf, and go run your business. It has to be the type of document that you can pull out and use all the time. You have to keep asking, "Why are we doing this? Are we on target? Are we meeting our product-introduction dates? Are we meeting our forecasts?" And that's not to say that the plan is cast in concrete either. You learn something in the first six months, and you change the plan. That's also the beauty of updating the plan every year: you can make changes.
>
> *— Manager, business planning,*
> *electrical equipment manufacturer*

Another saw the plan as a road map:

> We encourage people to think of two things when they're writing their marketing plan. One is to make sure that there's some kind of summary for those people who need to approve the plan. The other thing is to provide the documentation you need to monitor change and measure it. We say, "Hey, this is primarily your road map for running and monitoring this part of your business for the next year or so. Use it as a hands-on, living document for checking your progress."
>
> *— Manager, business planning, corporate marketing*
> *services, diversified industrial products manufacturer*

A third saw the planning process as a way of weeding out the less promising options and the plan as a snapshot, a picture of a scene that is always changing:

> If anything, it's a weeding-out process at best. It's not only summarizing the decision-making, the thinking, the crunching, the inflow analysis, and interpretation of information. It's saying, "Look, we have all of these alternatives. We have all of these options. Which ones are the most promising? Those are the ones we're going to write down on the paper." That's really what it is: a priority-setting, weeding-out process. At some

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[1] Peter F. Drucker, *The Practice of Management* (New York: Harper & Row, 1954), p. 37.

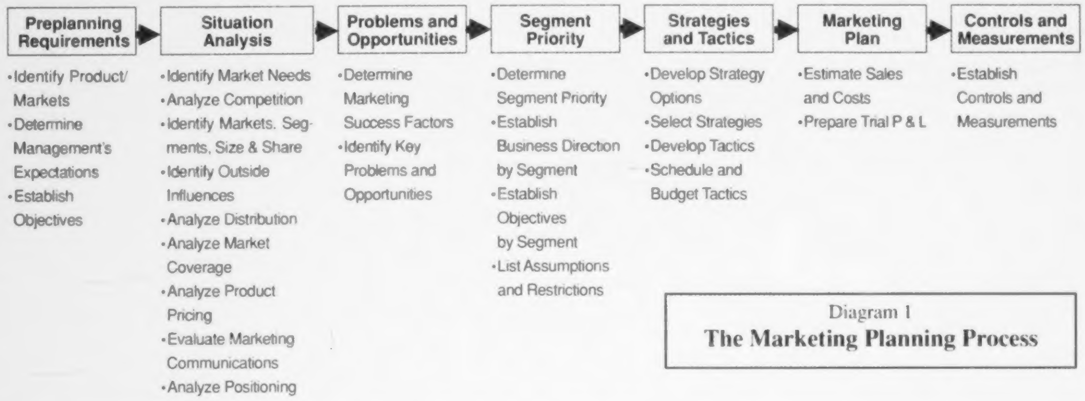
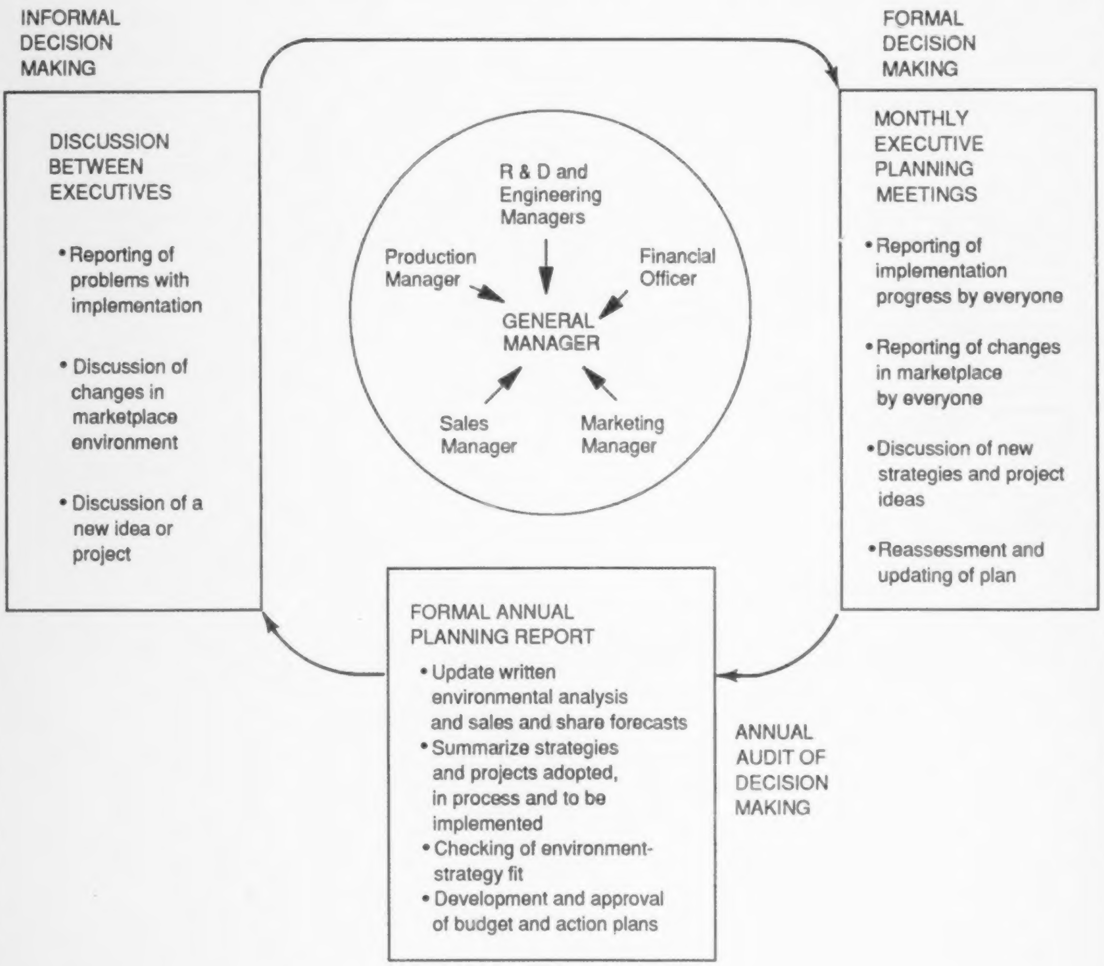

Preplanning Requirements
•Identify Product/ Markets
•Determine Management's Expectations
•Establish Objectives
Situation Analysis
•Identify Market Needs
•Analyze Competition
•Identify Markets, Segments, Size & Share
•Identify Outside Influences
•Analyze Distribution
•Analyze Market Coverage
•Analyze Product Pricing
•Evaluate Marketing Communications
•Analyze Positioning
Problems and Opportunities
•Determine Marketing Success Factors
•Identify Key Problems and Opportunities
Segment Priority
•Determine Segment Priority
•Establish Business Direction by Segment
•Establish Objectives by Segment
•List Assumptions and Restrictions
Strategies and Tactics
•Develop Strategy Options
•Select Strategies
•Develop Tactics
•Schedule and Budget Tactics
Marketing Plan
•Estimate Sales and Costs
•Prepare Trial P & L
Controls and Measurements
•Establish Controls and Measurements

Diagram 1

The Marketing Planning Process

Diagram 2


INFORMAL DECISION MAKING
DISCUSSION BETWEEN EXECUTIVES
•Reporting of problems with implementation
•Discussion of changes in marketplace environment
•Discussion of a new idea or project
FORMAL DECISION MAKING
MONTHLY EXECUTIVE PLANNING MEETINGS
•Reporting of implementation progress by everyone
•Reporting of changes in marketplace by everyone
•Discussion of new strategies and project ideas
•Reassessment and updating of plan
R & D and Engineering Managers
Production Manager
Financial Officer
GENERAL MANAGER
Sales Manager
Marketing Manager
FORMAL ANNUAL PLANNING REPORT
•Update written environmental analysis and sales and share forecasts
•Summarize strategies and projects adopted, in process and to be implemented
•Checking of environment-strategy fit
•Development and approval of budget and action plans
ANNUAL AUDIT OF DECISION MAKING

Source: Dr. Peter R. Dickson, Crane Professor of Strategic Marketing, Ohio State University point in time, you have to take a snapshot and put something on a piece of paper. But the process is ongoing.

—Marketing director, glass manufacturer

The same executive suggested that it's all too easy to be distracted by the mechanics of the process. What matters is the quality of the thinking:

> We screen the tactical possibilities by going through a number of iterations—both thinking and crunching. Probably, there is a lot more emphasis these days on the thinking. There's certainly a lot of crunching going on, but that's almost routine, considering the techniques that we have now. I have a plaque up there on the wall above my computer that says, "Think first, crunch second." In the last ten years, in our company and in American industry as a whole, we've tended to spend less time thinking than we should have.

According to another executive, everyone should recognize that it's the *people* that are important, not the process:

> I think the process used to be a substitute for strategic thinking. Now that we're putting more emphasis on strategic issues, we're seeing a couple of things that can make a tremendous difference. First, individuals, as opposed to the process, can make a real contribution. Second, it's things like creativity and leadership—in the sense of initiative, insight, and courage to change people's way of thinking about a business—that make a great difference. A lot of the people who are coming out of schools with strong MBA programs are brilliant analysts—very skilled at taking a business apart, but not necessarily skilled at dealing with basic questions: How do you achieve insight? How do you trigger action? And most important, how do you change people's paradigm or view of the world?

—Director of marketing research services, food manufacturer

Changes in Procedures for Preparing Plans

The procedures for preparing marketing plans have changed in recent years, as shown in Table 1. (Tables appear on pages 51-62). The primary changes are that the authors of the plan now receive more input from other people in the company (e.g., representatives from manufacturing, engineering, research and development, finance, sales), and the plan is more likely to be integrated with the company's or business unit's strategy.

One respondent described the evolution:

> Integration is terribly important because it gets people to buy in. It keeps people on the same page at the same time. It isn't a case where the marketing department prepares a marketing plan and then dumps it on everybody else and says, "OK, this is what you're going to do. Let me know at the end of the year, or at the end of the quarter, how well you've done." That kind of mentality may still exist in some businesses, but it can't exist in the business-strategy arena, because it doesn't work.
>
> It seems to me that planning today has to be an interactive process. It has to involve all the major disciplines of the business.. You have to get rid of the age-old argument between the manufacturing guy and the sales guy. The manufacturing guy used to say, "Why don't you sell what I can make the cheapest?" The sales guy would say, "Why don't you make what I can sell the easiest?" That's very counterproductive.
>
> You can only resolve that dispute when planning becomes a dynamic, ongoing process that everyone buys into. And now that people have begun to buy in, we really have a business plan—a team plan. It's not something that emerges out of some marketing mystique. It doesn't work that way.

—Marketing director, diversified manufacturer of industrial products

Variations Among Industry Groups

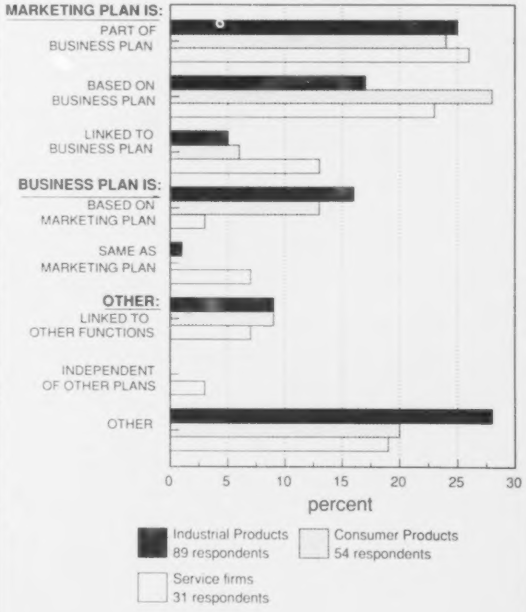
Table 1 shows a good deal of variation among the three industry groups—manufacturers of industrial products, manufacturers of consumer goods, and service companies—regarding changes in plan-preparation procedures. Notice, too, that several respondents reported that they didn't have formal marketing plans until fairly recently. (See the box on page 12.)

Linking the Marketing Plan with Other Plans

Chart 1 confirms that the marketing plan *depends* on the business plan. That is, it's part of the business plan,

Chart 1: Links with Other Plans

Q: How does your marketing plan connect with other plans that your unit depends on?



We Didn't Have a Marketing Plan Five Years Ago

About 10 percent of the respondents said their companies or business units didn't have formal marketing plans five years ago. Here is how some of them described the situation.

Five years ago, we had no marketing plans. Right now, we are neophytes in thorough marketing planning. We have a group responsible for 10 or 20 product lines. We have a "vision" of our marketing planning elements, but it will take several years to provide a useful marketing plan that can be integrated and managed as a real planning tool.

—Marketing manager, component manufacturing division of an automobile company

Five years ago, marketing plans were nearly non-existent. Each year, plans have improved in quality. As of last year, the plans have developed to a point where they guide the entire corporation. We have formalized the process and have given more clarity as to who is responsible individually, departmentally, and as part of a matrix organization.

—Vice president, marketing, telephone company

Five years ago, we had sales plans, not marketing plans; marketing/sales was not considered a strategic activity.

—Vice president, sales, steel company

Five years ago, there was no organized attempt to prepare marketing plans. The most that was attempted was a spending budget. Each year during the past five, the planning process has become more elaborate and detailed.

—Director of marketing, financial services company

The plan five years ago could be described as no more than a short- and long-term sales forecast. Today, we formally conduct a situation audit, both internal and external; an industry trends analysis, both technological and business; and a complete, formal plan that includes new-product, acquisition, penetration, and alternative plans.

—Vice president, marketing, manufacturer of electronic components

Five years ago, our company had no defined strategic plan for our division. Each year a meeting was held to seize upon immediate market opportunities to increase sales, but little thought was given to long-term profitability. One year ago, we completed an extensive process to create a strategic plan to define our customer target and our long-term sales and profitability objectives. This year we will develop a thorough operational plan for 1990 to include specific directions for the entire year's activities for each product as well as our development of manpower.

—Senior vice president, ordinary marketing, life insurance company

The concept of establishing a marketing plan is a major change in our company. Two years ago, we did not have a formal plan. We now focus our efforts on our core markets, and develop a plan for each one. This provides the direction to field sales, product development, and manufacturing. The market managers are responsible for developing and implementing the plan.

—Director of marketing, a paper company

Five years ago, we didn't prepare marketing plans, only strategic (business) plans. We've now been preparing marketing plans for about two and a half years. Initially, each business unit prepared a marketing plan. However, in the last year, we've altered the process somewhat such that plans are prepared for specific products or programs, but not necessarily for each business unit. In the future, we may combine our strategic and marketing planning processes into one process. The result would be an overall business plan with strategic objectives and the marketing section comprising the tactics.

—Assistant vice president, financial services company

derived from it, or in some way integrated with it. However, in a minority of the cases, the business plan depends on the marketing plan. The marketing plan is prepared first. and the business plan is built on that. There's clearly a strong connection between the two; marketing plans are not prepared in isolation. (See box on page 13.)

It's useful to distinguish between various types of business plans. The one that gives overall direction to the company is often called the strategic plan. It may span anywhere from three to twenty years. There may also be a shorter-term plan covering one to five years, sometimes called an operating plan, since it covers all of the unit's year-to-year operations—manufacturing, research and development, engineering, marketing, finance, and so on. The marketing plan usually has a span of one year.

The strategic plan sometimes specifies decisions about what kinds of products to make and what amount of quality should be built into these products. Even if such decisions are not described explicitly in the plan, they may be implicit in the company's stated strategy For example, if part of the strategy is to add a new line of products and the company will have to build new manufacturing facilities to produce those products, this decision will eventually affect the shorter-term marketing plan.

The point is that many of the decisions made by top management may not be considered marketing decisions, but they will definitely shape the organization's

Integrating the Marketing Plan With Other Plans

Executives from several different types of companies:

A diversified manufacturing company:

Marketing plans are done annually and are tactical in focus. They reference and provide implementation of long-range strategies. They are in effect the "first year" of the annual five-year plan process.

A bank:

The marketing plan is now freely integrated into the division plan and the company plan. However, within the marketing plan are included individual plans for the various marketing disciplines—advertising, merchandising, service development, research and analysis, and telemarketing. These become, in reality, implementation plans for carrying out the overall business or strategic plan.

A life-insurance company:

Our marketing plans are formally documented as part of the overall business plan by each business unit. In that context, they incorporate less detail than one might want in order to take action. At the middle-management levels, marketing plans vary widely with some units developing very well outlined plans of purpose and actions down to specific advertising programs, creative, and media schedules, plus expected results in numbers. These most often also tie very closely to specific products, sales plans, and geographic conditions. Others are more superficial, and, in many cases, stop with objectives and big task assignments, with no further identification of how a marketing effort will be carried out.

A food company:

Marketing plans are for individual brands/groups of brands. These are then consolidated to form the operating plan for the business unit (e.g., the grocery products group or the refrigerated products group). The operating plan then links to the unit's strategic plan, which typically covers a three-to-five-year period.

An equipment manufacturer:

There is no marketing function within the company. All marketing plans are generated within the SBU as a part of a business plan.

A food company:

The marketing plan is the core of all other plans. Capital expenditures, human needs, etc. all respond to marketing's plan. Took a while to get there, and we had blood all over the place, but we are essentially and finally marketing-driven. Our lip-service phase is over, and we really mean what we say.

future marketing plans. And of course, the more the top managers know about marketing the company's products or services, the higher the quality of the future marketing effort. In other words, the company's success may depend more on the marketing talents of managers at the highest level than on the talents of the middle managers who have immediate responsibility for marketing.

The following comments, from marketing executives in three large corporations, illustrate how the marketing plan may relate to the general business plan.

The focal point for operating people:

Our plan is more than just a marketing plan. We've integrated the marketing plan into the basic strategic plan for the corporation. So we can't separate the two. They're really one. And in this plan we have all the critical thinking from the key operating people as to where we are and what we ought to do. This is the focal point for all the operating people.

—Senior vice president, marketing,
sanitation services company

Blurring the lines between plans:

The level of sophistication in planning just continues to increase as we get more and more business-school graduates. Planning is not so much seat-of-the-pants any more. It's more of a continuous process of analyzing the competition and analyzing the market so we can determine what the proper tactical moves are. I don't think there's anything fancy about it. I just think it's blocking and tackling.

We continue to grind it out and focus on what we do best. We get out in the marketplace and do it. As far as this division is concerned, and as far as the entire company is concerned, marketing planning and business planning are blurred. Really, we focus so much on business planning that market planning is just one of the elements of that.

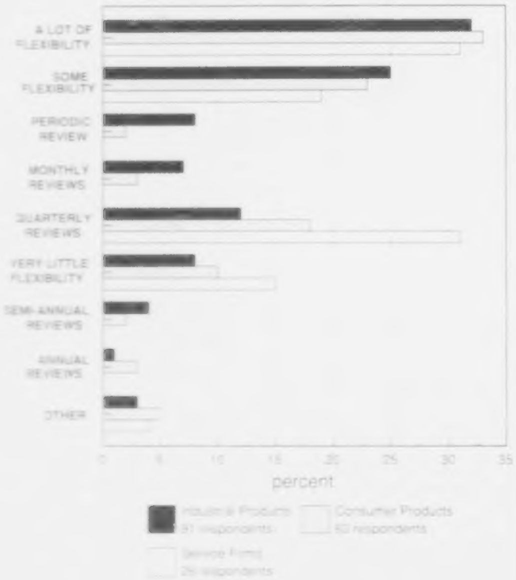
—Manager of business planning, motor manufacturer

Closer linkages:

There's now a closer linkage between our business planning, our strategic planning, and our marketing planning. When I look back to 10 years ago, it's absolutely amazing how independent those were. In the first place, we didn't have a formal strategic planning process then. The managers of each business would sit in meetings and do all the planning without direction from the corporation. But in 1982, we introduced a formalized strategic planning process to be used by all operating units, and that allows the corporation to view its business portfolio in a way that makes sense. But the marketing planning was almost independent. If there was business planning going on, that was fine. But as a marketing manager, I sat down and looked at my marketing plan. Today, I look at the

Chart 2: Opportunities for Altering Strategies or Goals

Q: What allowance is there for altering strategies or goals, once the plan is approved?



business plan. I listen to top men talking about their business, and then I implement the marketing program, taking my cue from the business plan.

—Manager of marketing planning, manufacturer of industrial products

Opportunities for Revision

It's generally understood that the plan is subject to change, and for very good reasons. As competition has intensified, markets have become more dynamic, and marketing plans have to be modified accordingly.

The revision process is informal at first. Members of the marketing team discuss the program almost daily, and changes in the plan can be made whenever it seems necessary. To make sure that the evolving ideas do coalesce into agreement, many marketing teams have periodic reviews—monthly or quarterly—to decide exactly how the plan should be modified. This can be described as a formal ratification of informal discussion.

Over and over again, executives said that their marketing plans are "not cast in concrete." Chart 2 summarizes the answers to the question, "What allowance, if any, is there for altering strategies or goals, once the marketing plan is approved?" The chart shows that the marketing team has many opportunities to make revisions during the life of the plan.

The main reason for changing the plan is to respond to competitive threats or changing customer needs, as these executives' comments demonstrate:

Unlimited opportunities:

The opportunities for change are unlimited. Our marketing plans are never cast in stone. They are always flexible. We recognize that the market can change, and our competitors can change their strategies and tactics, and we can simply get smarter.

—Vice president, planning & business planning, manufacturer of electronic controls

A market-driven plan:

The market environment and customers drive the plan. If market or customer situations change significantly, the plan is altered.

—Vice president, marketing & sales, manufacturer of steel tubing

Flexibility to respond:

We have considerable leeway for change. We consider marketing to be an ever-changing discipline, and, whenever new ideas surface, or changes in the competitive or regulatory environment occur, we must be flexible enough to respond.

—Vice president, director of marketing, special markets, commercial bank

As these executives attest, preparing a marketing plan is much more of a recirculation process than a linear flow.

How Top Management Guides Marketing Planning

If war is too important to be left to the generals, as Georges Clemenceau said, marketing may have become too important to be left to marketing specialists. Company after company has discovered—or perhaps rediscovered—the necessity of getting closer to the customer; CEOs have stepped in to see that customers were getting what they wanted.

It's not that the status of the marketing executive has been diminished. What seems to be happening is that the responsibility for marketing decision-making has been elevated to the highest level of the company or business unit, and the senior marketing executive has assumed the role of a key advisor and source of marketing ideas and information.

How does this square with the notion that responsibility is being pushed down through the ranks of the corporation? In fact, the trend seems to be to make business units entirely responsible for their own performance. But within the business unit, the responsibility for marketing decisions seems to be rising to the top.

One marketing executive described the changes:

> We used to operate in a fragmented way, with marketing people over here, engineering people over there, and manufacturing people beyond. There was some interconnection, as needed, but it was still fragmented.
>
> Marketing is becoming more of a focus now, more of a broad-based business perception. We're educating our people, telling them they need to be business people, not just marketeers. And so their job is to really understand their markets, understand the dynamics of changing customer requirements and behavior. And with that base of knowledge, the marketer's job is to develop the recommendations to feed the general management. We will be doing more information gathering. That's becoming a more important part of the business.
>
> At the same time, the general manager is becoming more of a business person too. Instead of orchestrating the organization functions—manufacturing, the laboratory, engineering, marketing—he is developing more of a marketing focus. Everybody is talking about customer requirements, customer satisfaction, quality. We actually believe in those things. So what we have is a marketing team, not a marketing function.
>
> I think it's appropriate that this is happening. Our resources are limited—or maybe the opportunities are so plentiful—that we have to prioritize. Things are much more expensive to bring to the marketplace today, and so we've become much more targeted, much more focused, and we recognize that management needs to call the shots. I think the general manager has more responsibility for making the right marketing decisions than ever before.
>
> *—Manager of marketing planning, industrial product manufacturer*

Preliminary Directives from Management

As shown in Chart 3, senior managers are much more involved in marketing decisions than they used to be. In

Chart 3: Top Management's Role in Shaping Objectives: 1980 vs. 1989

Q: Are broad-brush strategic objectives for the marketing of products or services usually determined before the marketing plan is prepared by direction from senior management? In a formal business or strategic planning document?

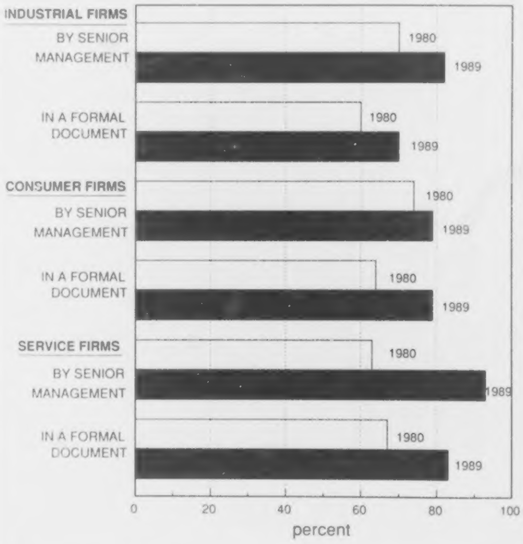


Chart 4: Responsibility for Preparing Plans

Q: Who—by title—assembles your marketing plan? (Note: only includes title of most junior person.)

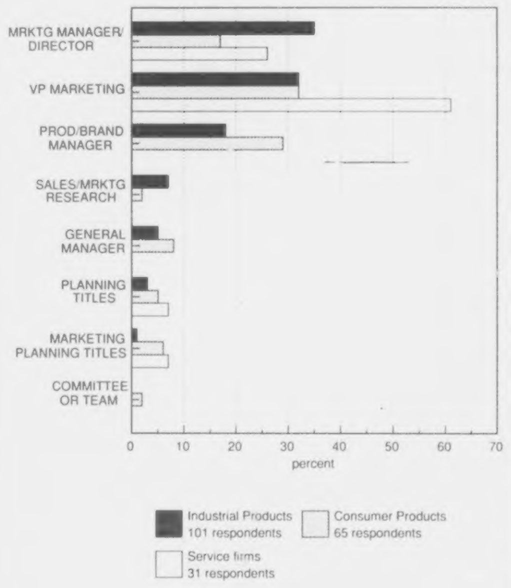
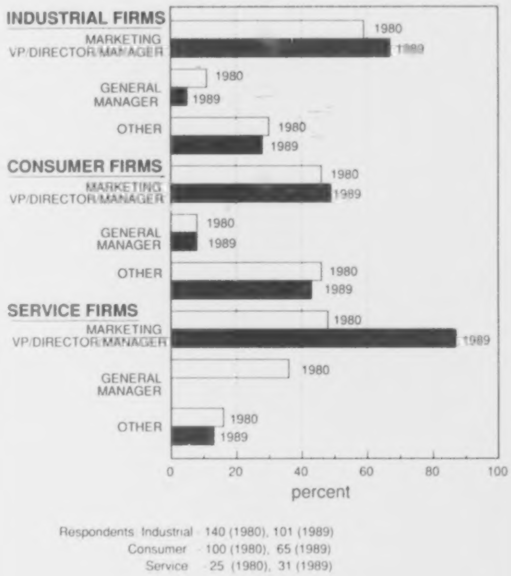


Chart 5: Responsibility for Preparing Plans: 1980 vs. 1989

Q: Who has primary responsibility for creating your marketing plan?



those cases where top management issues preliminary directives, respondents were asked to specify what topics were covered in the directives. The answers appear in Table 2 (see page 52). Notice that the guidelines primarily have to do with financial matters—profit and sales goals, and budgets.

Of course, top management is often under a lot of external pressure to perform well financially. What the CEO tells security analysts today may have a substantial effect on the company's marketing plans for the next few years.

As one executive remarked:

> Our corporate plan on any given year is set primarily as a financial-control exercise. This is what we achieved in sales and profit last year. We have a five-year growth plan essentially based on return on equity. We've committed to security analysts and to shareholders x percent of earnings. That translates into a sales increase of x amount, based on what we think the cost of goods will be next year. That's the sales number we have to hit, and then we'll have to write a plan to fit it.
>
> In the ideal world, my marketing plan would be based on what I thought I would achieve if I didn't do anything differently from my running rate right now. If I had this much more to spend on the marketing and sales promotion, and this much more to spend on advertising, I could produce this much more in sales.
>
> In reality, our sales number and our profit number are set by security analysts, and we work according to that number. The marketing planning that goes on I wouldn't say is an afterthought, but it's very heavily driven by a financial commitment that's been made one year, two years, three years, five years out by the chairman of the corporation.
>
> *—A marketing executive with a very large food company*

Although top management seems to be taking firmer control of marketing planning, this does not necessarily discourage creativity. Marketing ideas still seem to rise from the middle and lower levels of the organization as well as from the senior marketing executive. This point, among others, is illustrated in "Crazy Ideas vs. Good Ideas Floating to the Top" and "New Products from Jewels of Understanding" (see pages 17 and 18).

Who Prepares and Who Approves the Plan?

Preparing a marketing plan is almost invariably a team effort, but the primary responsibility usually falls on one person. Chart 4 indicates that person is likely to have the title of marketing manager, marketing director, or vice president of marketing. That information is compressed in Chart 5 and compared with findings from our

Crazy Ideas vs. Good Ideas Floating To the Top

The planning process has to start at the top. If the people at the top don't believe in the planning process, it will never get done. Fortunately, we've always been blessed with people at the top—I mean the very top, including the president—who believe strongly in it.

I think the operating people, especially at the branch level and perhaps even at the regional level, tend to believe that, if it isn't broken, why fix it? and tomorrow will always be the same as today. And the planning process is very annoying for a lot of these people, and very disruptive. There's a lot of controversy involved.

But I think that's all good and necessary, because they often think of the people at the top as people who have nothing better to do than sit around and think up crazy ideas. The real role that the line operators have is to challenge and question and ask why. If the people who are moving the planning process along can't defend their position or give a good rationale, then probably their ideas aren't worth listening to.

So I think that any planning process has to have a lot of tension and a lot controversy involved. It's through the controversy and the tension and the discussion that you really get the good ideas that float up to the top. So we don't discourage that. We don't try to get everybody in the organization thinking the same way.

The line operators are there for one reason, and that's to make the business grow profitably. That's their primary focus. We wouldn't want a lot of visionaries and dreamers down in the line operations. But we do involve the line operators at every step along the way. I think it's through that process that everyone grows.

—Senior vice president, marketing,
a large service company

1980 survey. Notice the large change in service companies. It's now far more likely that their marketing plans will be prepared by a manager with a marketing title, presumably because many service companies didn't have marketing managers until fairly recently. Notice that service companies have become much more marketing-oriented than before. "The Cookie Cutter Plan" (page 19) shows what can happen if the responsibility is left to a relatively inexperienced person.

Chart 6 shows who's responsible for approving the plan. In most cases, it's someone at the highest level of the company or the division.

A comparison between the 1980 survey and the present survey is shown in Chart 7. It shows that there has

Chart 6: Responsibility for Approving Plans

Q: Who must finally approve marketing plans? (Note: only most senior person included here.)

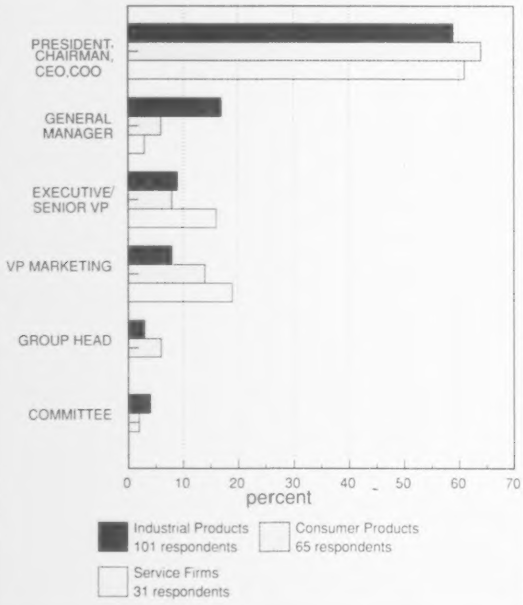
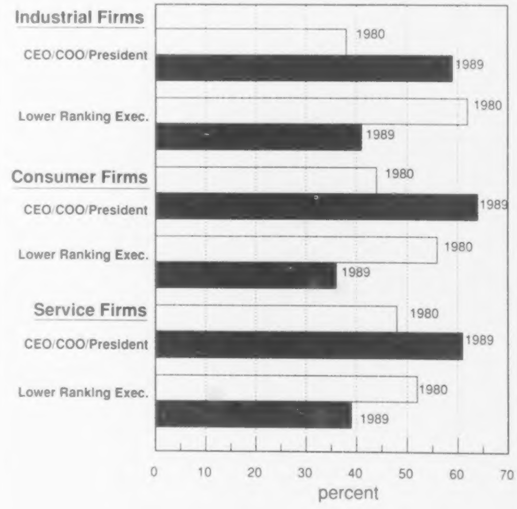


Chart 7: Responsibility for Approving Plans: 1980 vs. 1989

Q: Who must finally approve marketing plans? (Note: write in title of executive or committee.)



Respondents: Industrial - 137 (1980), 101 (1989)
Consumer - 100 (1980), 65 (1989)
Services - 25 (1980), 31 (1989)

New Products From Jewels of Understanding

Major pricing decisions, or a decision to roll or not roll a new product, for example, would be made by the president of the company. The reasons for that are obvious, because you're talking about a commitment of, in our case, sometimes $60 million.

That decision is based on very solid information. We know an incredible amount about our business. We know a lot about what's happening at the end of the distribution chain because we have a lot of scanner data on how fast our products turn, who's using them, and all of that detail. The information flow is rich. For example, in determining whether or not to extend a test market, we would have a scanner analysis of trial and repeat, as well as a full-fledged cannibalization analysis. After test marketing, we'll have lots of estimates of what the economics of the proposition will be—what the efficiencies of our manufacturing lines will be, what the capital will be, what the pay-out will be. All that information is simultaneously evaluated at that point of decision.

Typically, the way that happens is that kind of decision would be expressed in a document that would be presented verbally, usually by me or one of my people, at a senior staff meeting. The meeting would be on the agenda weeks in advance, so the document can be reviewed carefully. Then the decision would be made at that meeting or very shortly thereafter. It's usually made at that meeting because the review has already occurred.

This document is not just a marketing plan. It's a full business plan. All the key functions would be represented, including technology, financial planning, and manufacturing—all the key pieces including sales. I don't think it's necessarily "consensus managing," but definitely we want all the functions participating as an opportunity to raise issues. In fact, in many cases we don't get consensus. Half of the people go away from those meetings not happy with the decision. But once the decision's made, they'll go execute it with us with as great a degree of excellence as they can.

Now, I should say that, although we have an on-line information system that allows us to look at our performance and our competitors' performance on a market-by-market basis, on an area basis, on a category basis from almost any time frame, this bare-bones information does not lead us to a strategy. Clearly, our strategies grow up from the guts of the organization. New-product strategy, for example, has for many years—for five years at least—not come top-down in this organization at all. It's definitely built up from the organization.

That's because on-line sales data or data from a scanner report only lets you build a strategy to some degree. That's still not the key information you need to build a strategy. I think the key information really comes from understanding of the consumer—at least an important piece of it. And that's why I think the strategy development happens more from the lower levels of the organization. They have closer contact with the consumer data and our marketing research department, and our new products group—those are the guys who are constantly pulling that together.

I've got two pretty senior managers working with the sole responsibility of developing consumer-based new-product strategy. That's all they do. And they've been very successful at taking strategic consumer information—product/performance information—and wringing it into strategies that actually lead to new-product projects. That's the way this organization operates. Those two guys wrote my new-product operating plan. They wrote it. They started from scratch.

They said, "Here are the key, key, key components—jewels of understanding of the consumer—against which everything ought to operate. Now let's take that and build it into a new-product strategy. And let's figure out what new-product projects we ought to execute that against." That's the core. That's the essence of the projects I'm executing against right now.

That's what I take to senior management. I say, "Here's what I think our strategy ought to be. Here's how much money I think I need to go and execute against it. And here's how much volume I'm going to sign up for next year. OK?"

—Vice president of new business for a large packaged-goods company

been a dramatic rise in the level of responsibility for approving the marketing plan.

Although the top manager's interest and involvement in the marketing plan have increased, the plan remains a pliable document, a guide to action rather than a set of marching orders. This is evident in Chart 8.

Advantages of Having Top Management Involved

As noted, there has been a trend toward more teamwork, and a trend toward having the top managers lead that team. In the course of the approval process, plans may be informally reviewed by senior executives at the corporate or group levels, or in some cases by a marketing or planning head at these levels. Such checks in advance no doubt minimize the likelihood of a plan's being rejected later during the formal approval process.

The charts in this section confirm that more and more top managers are playing a part in marketing planning. They control the planning process in part by specifying profit and sales objectives and budgets. Marketing plans are still prepared by a management team headed by executives with marketing titles, such as vice president, director, or manager. But in most cases, final approval is in the hands of executives at the top—CEOs, COOs, the chairman, or the president.

The Cookie-Cutter Plan

One of the main shortcomings of our plans is that they're often naive. They're cookie-cutter plans.

When we have one of our guys sit down and write a marketing plan, he typically is an associate brand manager with one year, maybe 18 months of experience in marketing, after an MBA program. He writes the plan for one of our key brands, a $400-million business. And then the rest of us get a shot at adjusting it. We could ultimately throw it away and tell him to go start again.

But that's not what happens. This guy's pretty insecure—he hasn't got a lot of years of experience—so he's going to put together essentially the same marketing plan that's been done on this brand for 20 years. There will be different names in it. The copy is going to be different copy. It's going to have a different promotion program, but it's all going to be the same stuff. He's going to continue what was done last year.

So I just think the system constrains us. We produce the plan with a cookie cutter. I'm not saying our people aren't smart; we have very good people here. But I think the system does constrain them.

I'd like to see a little more innovation. I'd like to start from a different base. We need a paradigm shift in the way we build a market. I'm trying to break a little bit of that mold. But it's very hard to totally throw it away.

—A marketing executive of a large food company

There are some big advantages in having the top people involved. One is that the organization has the benefit of greater experience. Another is that, because communication is now much more direct, decisions can be made much faster. Two executives comment on these points:

Access to senior management:

We're very fortunate in being able to have access to senior management to discuss business issues. So there aren't any surprises in the planning process. We have a short chain of command. I have been in more than one situation where my boss (the division president) and I laid out an urgent issue with a recommendation on how to address it, and we received approval from the chairman the same day.

There's a strong sense of urgency on the part of senior management to bring problems to their attention. In fact, we have a saying: "If you've got a problem and you don't tell senior management about it, you've got a real problem."

—Vice president, marketing, division of food manufacturer

A higher level of experience:

Four or five years ago, a great deal of our activity was designed to get organized for when you did get some senior management attention. We had more levels than we needed, more process than we needed, maybe more structure than we needed. In the last few years, our senior managers have been taking that apart. At the same time, the company has sold off some peripheral businesses, and the senior people have a lot more time to spend with the core businesses, and they can behave in a less formal fashion. Instead of scheduling meetings far in advance, they initiate contact with the operating divisions on an ad hoc basis.

Senior management has also placed a tremendous emphasis on speed. They feel this is a source of competitive advantage, and they have really been very aggressively pushing it. We've also eliminated two or three layers between the chairman and maybe the most junior marketing person, which shortens the review process.

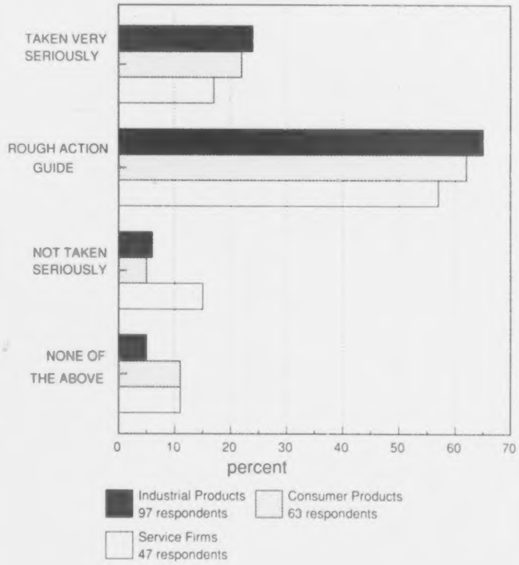
The key operating divisions now have the benefit of a higher level of experience. As we've eliminated layers, we've said, "We want the senior people, the most experienced, savvy, capable people running their businesses—but not as overseers. We want them actually working in the business.

We now have more senior people acting as general managers. They have true profit-and-loss responsibility, and they control every step of the process of getting to market.

—Director, marketing research services, food manufacturer

Chart 8: Status of Marketing Plans

Q: Which of these statements best describes the status of marketing plans in your company?



What Are We Really Trying To Accomplish?

Our planning process begins with a half-day meeting to discuss strategic issues. The meeting includes just three people—the president of the division (me), the chairman of the board, and the president of the corporation. I have about three sheets of paper, maybe four, that talk about these things: What are the issues? What are the market dynamics, as I see them today and what I see in the next three years? What should we be spending in terms of protecting our market share? Where is the marketing going, from a demographic standpoint?

This is a high-level strategic discussion. We just sit and talk about my business—not a lot of slides, not a lot of pictures, more informal than formal—to get a frame around what I think the strategic issues in the division are. I want to get agreement from them, the chairman and the president, that, yes, those are the issues they're concerned about as well, and that we need to develop plans around those issues.

What we agree to is that there are five or six strategic imperatives. In each case, we agree that a particular objective has to be successfully achieved or the division will not succeed in its business efforts, and we have a three-year horizon. The objectives might have to do with share, or new-product technologies, or management development, or organizational issues that need to be addressed.

Then I draw up a two-page response. It says, here's what we talked about, here's what we agreed to do. Then I go back to the division with this document in my hand. I say, "OK, here's what we're headed for, here's where we got strategic agreement from the corporation." Then we start developing a plan around that direction.

There isn't an awful lot of planning that goes into that first meeting. I mean, we get bunches of numbers, and we look at the most strategic spots, such as share, such as technology. But it's really an opportunity for one time during the year for the three of us to sit down and just talk. That's much better than having a bunch of people in the room, presenting and showing what they want us to see. The next step is to come back to the division and put together a team to prepare a plan based on the strategic plan. This book, which we call a marketing strategic plan, deals with marketing and the whole focus on what we're going to do, and what we're going to do different.

The preparation is typically done by the marketing department, supervised by the manager or director of marketing services and planning. He sort of heads up the committee that puts the book together. Then, once the book is done, we have a meeting at corporate headquarters. We go over very specific areas, with a 35- to 50-page report. That's basically the way it ends up. That seems to be a basic Marketing 101 kind of process, but it's amazing how much disagreement there can be. You have one idea of what your job is, and other people in the organization may have a different idea. I think the key is to get agreement on the mission: what are we really trying to accomplish?

—President of a division of a manufacturer of consumer products

The Scope of the Marketing Plan

The marketing concept—the idea that the customer defines and drives the business enterprise—surfaced in the 1950s. It was articulated not only by Peter Drucker but also by many corporate executives. The most influential statement of the marketing concept may be "Marketing Myopia" by Professor Theodore Levitt, which concluded,

> In short, the organization must learn to think of itself not as producing goods and services but as *buying customers*, as doing the things that will make people *want* to do business with it. And the chief executive himself has the inescapable responsibility for creating this environment, this viewpoint, this attitude, this aspiration. He himself must set the company's style, its direction, and its goals. This means he has to know precisely where he himself wants to go, and to make sure the whole organization is enthusiastically aware of what that is. This is the first requisite of leadership, for *unless he knows where he is going, any road will take him there.*[2]

The marketing concept was widely endorsed in the 1960s. But in the following decade, it seemed to be partially eclipsed, when managers became interested in strategic planning. Their efforts were directed toward assessing the company's ability to serve particular markets, finding and sustaining a competitive advantage in those markets, and developing the most profitable mix of products. The object of the game was to manage the corporation's businesses as if they were a portfolio of negotiable instruments. Although the marketing concept and the strategic-planning concept aren't necessarily in conflict, it has been argued that, by concentrating on strategic planning, managers tended to shift their attention from creating customers to trying to dominate particular markets, segments, or niches. As one observer said, "What was being emphasized in these strategic planning frameworks may not be as significant as what was left out—the customer." [3]

Perhaps inevitably, managers were tempted to seek short-run financial gains instead of investing in new products and technology that would allow them to compete successfully with strong, new contenders based in Asia and Europe. In another quarter, the marketing concept was attacked by critics who thought that companies had paid too much attention to marketing and too little to innovation. Robert H. Hayes and William J. Abernathy made this point in their well-known essay, "Managing Our Way to Economic Decline," which concluded:

> The key to long-term success—even survival—in business is what it has always been: to invest, to innovate, to lead, to create value where none existed before. Such determination, such striving to excel requires leaders—not just controllers, market analysts, and portfolio managers. In our preoccupation with the braking systems and exterior trim, we may have neglected the drive trains of our corporations.[4]

In any event, the marketing concept seems to have reappeared (see "Rediscovering the Marketing Concept," page 22). But it now seems appropriate to recognize that, in the process of creating a satisfied customer, innovation is at least as important as marketing. It also seems appropriate to refer to this idea as the customer concept rather than the marketing concept.

Changes in the Contents of Marketing Plans

Where does the customer fit in the planning process? Table 3 (page 52) shows how the content of marketing plans has changed over the last five years. Notice that the most often mentioned change is that plans are now much more likely to be oriented toward the customer.

Some executives describe this shift in emphasis:

> Our marketing group has changed from a product focus to a market focus. This allows us to focus on customer needs.
>
> —*Manager, business planning, manufacturer of electrical equipment*

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[2] Theodore Levitt, "Marketing Myopia," *Harvard Business Review*, July-August, 1960, p.56.

[3] Frederick E. Webster, Jr., *Rediscovering the Marketing Concept*, (Cambridge, MA: The Marketing Science Institute, Report No. 88-100, p. 9.)

[4] Robert H. Hayes and William J. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review*, July-Aug., 1980, p. 77.

Rediscovering the Marketing Concept

Many top management spokespersons have stated their belief that the rediscovery of marketing may provide an important boost to competitiveness in America. The marketing concept, emphasizing the importance of focusing on the satisfaction of customer needs as the key to long-term profitability, is now expressed in such new phrases as "close to the customer," but the basic idea is more than 30 years old.

Once again we see firms recommiting resources to marketing, refocusing on their traditional businesses, and rebuilding long-term relationships with their customers. Customer service programs are receiving increased attention, and market-based measures of performance are becoming part of management evaluation systems. Focus on the customer is once again taking on strategic importance as the fundamental requirement for company survival and competitive effectiveness. With proper attention to such basic issues as top management support and corporate culture, the integration of marketing into the planning process, the development of highly competent marketing management personnel, market-based evaluation and reward systems, and making sure the total organization understands and accepts the basic commitment to customer satisfaction, we can hope that the marketing concept will at last be firmly entrenched in American business enterprise.

— Frederick E. Webster, Jr.
E. B. Osborn Professor of Marketing
Amos Tuck School, Dartmouth College

(Cambridge, MA: Marketing Science Institute, *Rediscovering the Marketing Concept*, Report No. 88-100, 1988, p. 18.)

> We have become much more focused on our customer and look at smaller and better defined market segments. We include more consumer research and try to start with our customer rather than our own products and services.
>
> *—Senior vice president, health insurer*

> We have more emphasis on the strategic situation and consumer needs defined for the target market.
>
> *—Division vice president, marketing research, greeting card company*

More Competitive Analysis

The chart also indicates a heightened interest in competitive analysis. No doubt this is due to the general increase in competitive pressure. The evident interest in competitive analysis also confirms the findings in an earlier Conference Board report.[5]

In one of the interviews that followed the present survey, an executive at a manufacturer of air-conditioning and heating components had this to say about competitive analysis:

> We now include a much more in-depth review of our competitors. We review their major accounts, their shares by application, their pricing, changes in their share and account penetration and product offerings on a year-to-year basis.
>
> We don't wait until the end of the year to do that, but this is the time we make sure we have the information. We go into detail about where their products are being manufactured, how much product has been moved from the factories, what their labor rate is in those factories, what their costs are.
>
> We regularly review all the major competitors' products in comparison with ours. We put them through the same quality audits that we use for our products in our quality laboratory. We do a thorough costing review. And we do that just to make sure they haven't made an internal design or casting change.

The president of a division of a manufacturer of eyecare products pointed out that collecting competitive information is a continuous process:

> If something that a competitor is doing is really unique and potentially going to change the market, then it's "Battle stations, everybody!" We should have learned about it before it happens.
>
> We have relationships with people throughout the marketplace, and we try to get intelligence in terms of what's happening, what deals are getting off, or what programs are getting off. We keep pretty close track of what our competitors are doing. And we really work hard at that.
>
> One of our big competitors launched a major new product last year. We knew four years ago that they were going to do it. We knew what materials they were going to use, we knew where they were getting the molds from, we knew what their manufacturing process was, we had an idea what their cost was, and we had a pretty good feeling of how they were going to market it. And they pretty much followed exactly what we expected them to do.
>
> Whenever someone is about to make a major move—either in terms of pricing or in terms of strategic direction—the phone calls come in. If it sounds serious, we put an action team or a task force together. We ask, what should we do next? how does this affect us? If it's a big issue, we keep that committee alive to come back and give us a report on what the response is. As these things come up, we deal with them.

More Rationale, More Realistic Analysis

Another important point is that the plans are better reasoned and more realistic. A few examples:

> Greater emphasis on *why* and *how*, not only *what*.
>
> *—Senior vice president, director of marketing, spirits and wine producer*

> Better situation analysis completed now: understanding company/brand strengths and weaknesses; deeper analysis of competitors; better utilization of information.

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[5] Howard Sutton, *Competitive Intelligence* (New York: The Conference Board, Report 913, 1988).

More strategically based: actions planned more strategic; content not as rote/predictable.

—*Vice president and director of marketing information, manufacturer of food products*

All plans now contain a Key Learning section, to apply the learning on the brand over time and develop the implication this learning might have on the brand's future.

—*Senior vice president, marketing and advertising, manufacturer of health and beauty aids*

More Specific Objectives and Measurements

These are among the comments about increased specificity:

Plans were previously *very* "loose." They provided only a general sense of direction. Now they are very detailed and tactical, with all aspects of marketing expenditures and actions to be taken clearly articulated. Also, plans previously contained no *quantitative goals*; now they do.

—*Category director, brewer*

Main content changes are in setting specific goals, strategies, and action items, and having measurement systems for progress.

—*Vice president, marketing, manufacturer of automobile replacement parts*

The Global Question

With all the talk about the necessity of thinking in global terms, it may be surprising that so few respondents said that their marketing plans contain more emphasis on global issues. Why so little interest?

For one thing, most of the respondents who mentioned the global issue are employed in the corporate marketing or planning departments of large U.S. companies, including an automobile company, a diversified manufacturer, a manufacturer of industrial-automation equipment, and a publisher of educational materials.

Also, the survey participants included marketing executives employed at the U.S. headquarters of several very prominent manufacturing companies based in Japan and Europe. Although these companies are definitely players in the global arena, none of the respondents mentioned the global issue.

What this suggests is that, as far as marketing planning is concerned, the global issue is important mainly to those (increasingly rare) companies that have a strong, centralized marketing operation at corporate headquarters.[6]

But in companies where the marketing operations are decentralized, the global issue may not be very relevant, because the companies' markets are likely to be geographically segmented. To modify the current cliché, it is not clear whether marketing people are thinking globally, but it is clear that they are acting locally.

Topics Covered in the Plan

Respondents were asked to go over a checklist of 20 topics that are often included in marketing plans. They indicated which topics were discussed with respect to objectives, strategies and tactics, and action programs. Table 4 (page 53) summarizes the responses that concerned objectives. The leading issues are market share and profit margins.

Table 5 (page 54) compares the answers supplied in the present survey and the earlier one. The table focuses on those cases where there were significant differences.

Since the issue of customer satisfaction has received an enormous amount of attention in the business press in the last few years, it's not surprising that manufacturers, in both the industrial and the consumer sectors, report a significant increase in emphasis on this issue in their marketing plans. What may be surprising is the decrease, in the same sectors, on the field sales effort. Perhaps this reflects an increase in more direct forms of communication, such as telemarketing and computer-to-computer ordering.

A couple of other surprises may be the diminished interest in marketing research in the industrial sector, and the diminished interest in advertising in both the industrial and consumer sectors.

Table 6 (page 55) shows what kinds of strategies and tactics are important. Regardless of the type of business, the key strategies or tactics seem to be related to market share, pricing, profit margins, new-product development, and the selling effort. Beyond those key concerns, there's a good deal of variation depending on the type of business. For example, manufacturers of consumer goods and service companies pay much more attention to advertising themes than industrial companies do. The variations aren't surprising, except perhaps that product quality seems to be more of a marketing issue for manufacturers of consumer goods than for manufacturers of industrial goods.

Table 7 (page 56) compares the answers from the 1980 and 1989 surveys. What is abundantly evident here is that service companies are taking marketing much more seriously than before.

Respondents were also asked to indicate which of the topics are represented by action programs. Table 8 (page 57) shows that the most common action programs have to do with the sales effort, holding or improving market share, and developing new products or services.

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[6] See David S. Hopkins and Earl L. Bailey, *Organizing Corporate Marketing* (New York: The Conference Board, Report 845, 1984).

Keep It Short

For existing products and markets, the outline of our marketing plan is only one page long, and the plans are generally not permitted to be over 15 pages long. It's always been my contention that, in a year's time, a group of intelligent, high-powered people in a business unit probably can't hope to accomplish more than five or six major things. And they have to be quite focused.

There are obviously a lot of supporting activities that go on to accomplish those goals. But when a new market manager writes a 30-, 40-, or 50-page marketing plan for me, I would weigh it maybe but not read it. When I get a long plan like that, at least in this industrial context in which we're operating, you know it hasn't been thought out. The key things that need to be done, the determinants of success have not been identified.

You need to keep it short in order to make sure that people are going to use it. If you send somebody a 50- or 100-page marketing plan, I can guarantee you where it's going to end up. It's going to end up in the bottom drawer gathering dust.

As companies get leaner and you have fewer and fewer people accomplishing more and more, people don't have time to sit there plowing through a 100-page marketing plan every time something happens, every time they want to know what they're supposed to do. It's much more productive to identify the half dozen or so key things that need to be done this year, either to fix a problem or to take advantage of an opportunity. Then make sure that those things get done.

—*Marketing executive, a large glass manufacturer*

Table 9 (page 58) depicts the changes in emphasis in the action programs. Again, the most striking changes are in the service sector.

Another checklist question included several topics that are occasionally included in marketing plans. Respondents were asked to indicate which ones are discussed in their plans, and the answers are summarized in Table 10 (page 59). Manufacturers of industrial and consumer products have a high interest in forecasting demand, segmenting markets, measuring competitors' market shares, and determining the needs of customers. Companies in the service sector seem to have significantly less interest in forecasting demand and competitors' shares of market. Perhaps this is because it's very difficult to take such measurements in service markets.

Table 11 (page 60) shows how the answers have changed in the period between 1980 and 1989. Industrial manufacturers and service companies seem to have a significantly increased interest in such factors as market segmentation and technological trends. On the other hand, manufacturers of consumer products have lost interest in several factors, including technological trends.

Packaging the Plan

As noted in Chapter 1, marketing plans are often linked to other plans, usually the comprehensive business or strategic plan. But the marketing plan isn't necessarily part of the comprehensive plan. In fact, as Chart 9 indicates, the marketing plan is usually a separate document.

Most marketing plans run for a one-year period (see Chart 10). As for the length of the plan, the median turns out to be about 25 pages (see Chart 11). Of course, the length varies depending on whether the plan is for a single product or several, and whether the plan is part of the business plan (see Chart 12).

Most Critical Problem in Preparing Plans

Although marketing seems to have been elevated in importance, and marketing plans seem to contain more concentrated discussion of customers' needs and competitors' strengths and weaknesses, many marketing executives seem to remain dissatisfied with their plans and the planning process. Table 12 (page 61) shows what the most critical problems are.

Chart 9: Packaging the Marketing Plan

Q: Which of the following best describes the situation in your company or unit?

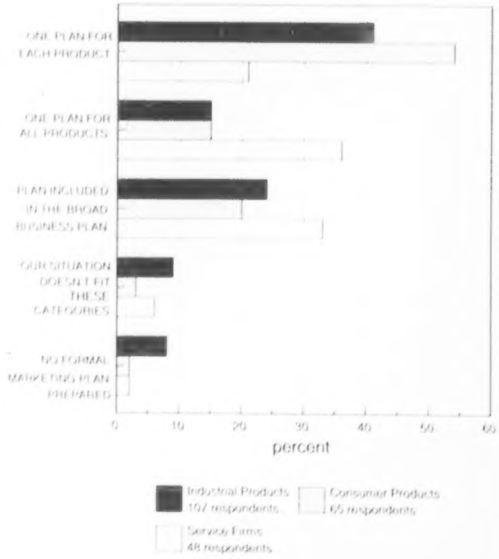


Chart 10: Time Covered by the Plan

Q: What period of time does your typical marketing plan cover?

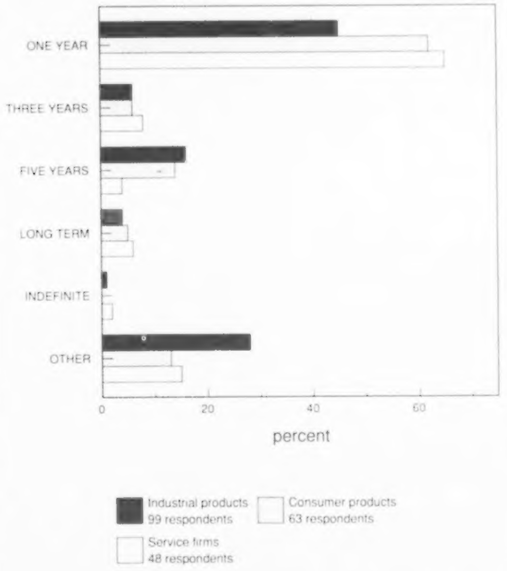


Chart 11: Length of Plan

Q: Approximately how long is your typical plan?

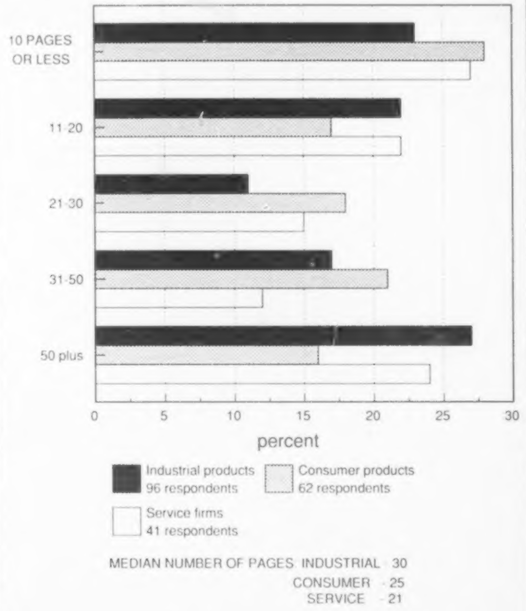
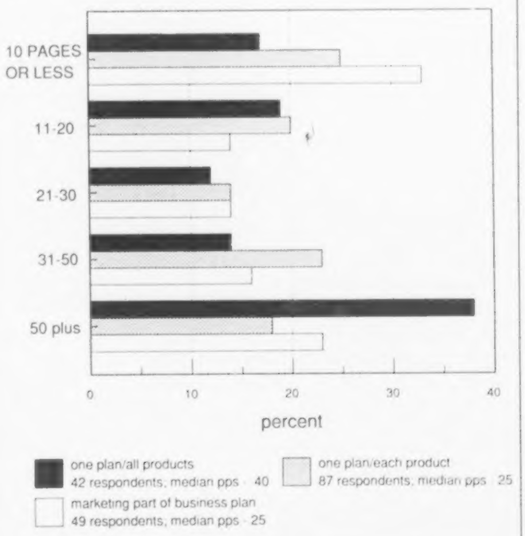


Chart 12: Length of Plan (by type of plan)

Q: Approximately how long is your typical marketing plan?



As usual, the answers vary according to the type of business, but it's evident that these are the primary problems: getting a consensus and cooperation, finding enough time to prepare the plan well, and making accurate forecasts. Note, also, that the problem of getting people to take the plans seriously is more prevalent in service companies than others.

Here are examples of how executives responded to the question of critical problems:

Getting consensus/cooperation:

Insuring there is full agreement on products to fulfill customer needs. This is accomplished by intensive communication with the sales organization.

—President, manufacturer of security equipment

Company-wide consensus on strategy, reorganization, trends, technology.

—Marketing manager, manufacturer of bearings and water pumps

Perceived notions on what the market is or is not by the corporate group. Resistance of line managers due to time demands and day-to-day pressure on running their units.

—Vice president, sales, manufacturer of steel plate

Conflict between U.S. corporate goals (which tend to be short-term) and European headquarters goals (long-term, strategic).

—Senior vice president, manufacturer of chemicals

Not enough time:

Time constraints on line personnel who are responsible for input to the plan but have day-to-day responsibilities.

—Vice president, appliance manufacturer

Dedicating the necessary time to collect the economic and market inputs, interact with other support functions, and develop the plan narrative. This effort is competing with daily problems and opportunities which are ongoing.

—Director, sales/marketing, manufacturer of automotive components

Time away from daily fire fighting.

—Vice president, marketing, food manufacturer

The difficulty of forecasting:

Evaluating factors which will most likely affect the business during the planning period (the economy, competitive activity) and determining appropriate pro-active or contingent responses in advance.

—Vice president, sales and marketing, manufacturer of woodworking machinery

Cloudy crystal ball—in a dynamic and uncertain environment.

—General manager, planning, steel manufacturer

Main Shortcomings of Marketing Plans

Respondents were asked to elaborate on what they considered the main shortcomings of their marketing plans. Table 13 (page 62) depicts the answers.

For industrial companies, the main shortcomings were that the plans weren't realistic enough and they contained too little competitive analysis. (Note that "more competitive analysis" emerged in Table 3 as one of the most important changes in plans.) For producers of consumer goods, the main problems were that the plans put too much emphasis on the short term, and, in spite of the short-term emphasis, the plans aren't adequately up-to-date. For service companies, the main shortcomings are a lack of specificity and an overemphasis on the short term.

Here are some comments that illustrate these complaints:

Not realistic enough:

High management pressure for optimistic forecasts.

—Director of sales and marketing, manufacturer of automobile components

Forced numbers. This results in a moving "hockey stick" from year to year. (The coming year is always going to have a much better sales picture.)

—Vice president, marketing & technology, paper manufacturer

Fixing old problems takes longer than estimated.

—Director of strategic planning and business development, manufacturer of control systems

Overly optimistic sales forecasts, unrealistic time schedules—particularly for new products.

—Vice president, marketing, manufacturer of lighting fixtures

Not enough competitive analysis:

They could do a better job in delineating competitive strategies and intelligence as well as our response to competitive threats and actions.

—Senior vice president, manufacturer of automotive components and assemblies

Need more consideration of possible competitor action—"What ifs?" Also need more competitor targeting.

—Director, marketing, glass manufacturer

Cannot address the advent of competitive forces from Asia, Europe, transplants, etc.

—Marketing manager, bearing manufacturer

There is more focus on "marketing" than "business" planning. As a result, not enough focus is placed on numerous areas of potential competitive advantage and cost effectiveness.

—Vice president, marketing, personal-care products

Short-term emphasis:

We should look at the longer (five-year) approach, but we are measured—and we get our bonuses—by how we perform in each individual year.

—Vice president, marketing, technical papers

Primary focus on just one year does not do an adequate job of strategic planning for the future. The dynamic nature of consumer markets requires more emphasis on developing longer term, sequential action plans.

—Vice president, marketing, toiletries manufacturer

The conflict between short-term financial issues and long-term marketing issues.

—Director, marketing, manufacturer of machine tools

Not specific enough:

Not enough detail for good implementation plans. Everyone nods their heads, but they leave decision-making meetings not really knowing how the decision will affect their work groups.

—Manager, marketing and business planning, manufacturer of automotive components

> The plan is big on objectives and program assignments. Short on specifics—how this will happen and why.
>
> —*Senior vice president, marketing and research, life insurance company*

> Not enough end-user information and direction. Not detailed enough. Too general. Not specific enough on steps for implementation.
>
> —*President, knitted fabrics division, textile manufacturer*

Future Emphasis on Marketing Plans

The final survey question was about expectations with respect to marketing plans. Chart 13 shows that an overwhelming majority of the respondents expect to see more emphasis on the marketing plan. Almost no one expected to see less emphasis.

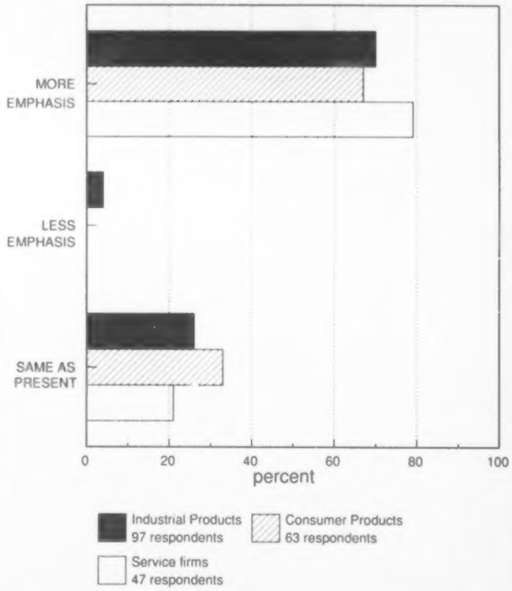
Some important changes in marketing plans have taken place in recent years. Today's plans are more likely to focus on the customer and to include a competitive analysis. Although the marketing plan may be linked to other plans, such as the company's or division's strategic plan, it is usually packaged as a separate document. It typically covers a year and runs about 25 pages.

The plan may detail several different strategies or tactics, chiefly those referring to market share, pricing, profits, new products, and the sales effort.

The most conspicuous content differences between the 1980 and 1989 surveys suggest that service companies are taking marketing far more seriously than they did in the past. The most critical problems in preparing plans are getting cooperation and finding enough time to turn out a competent document. The main shortcomings are that plans aren't sufficiently realistic, they don't include enough competitive analysis, and they're too general.

Chart 13: Future Emphasis on Marketing Plan

Q: Over the next few years, do you expect your unit to place...



In spite of these problems, marketing plans are likely to become even more important in the future.

Exhibits

Exhibit 1

FACET ENTERPRISES, INC.

Strategic Planning

Guidelines for Industry, Market and WOTS* Analysis

I. Industry Analysis
II. Market Analysis
III. Customer Analysis

Review current customer base to evaluate if they are likely to remain customers in the future (see schedule). It might also prove useful to evaluate why non-Facet customers buy competitive products.

Analysis Schedule

Products:

Identification of Facet customer(s) ____________________

Identification of ultimate customer(s) ____________________

What market segments are served by Facet product(s)? ____________________

Should this remain the same? ____________________

How is Facet product perceived by customer(s)? ____________________

By non-customer(s)? ____________________

Why do customers buy Facet product(s)? ____________________

Why do ultimate consumers buy Facet products? ____________________

Will customers continue to buy Facet product(s) in 3-5 years? ____________________

If not, why not? ____________________

* Weaknesses, Opportunities, Threats, Strengths

Exhibit 2

A VEHICLE MANUFACTURER

Strategic Marketing Plan—Outline

The need to plan and prepare our competitive strategies is essential in today's business environment. Being aggressive in today's marketplace isn't enough to gain that advantage over competition and increase our market share. Development of a Strategic Marketing Plan is part of the profit planning process.

Mission Statement

The mission statement is the cornerstone of your Strategic Marketing Plan. We have attached, for your information, examples of mission statements.

What is your division's mission statement?

Statement of Competitive Position

Knowing the division's competitive position in your industry, relative to your mission statement, is essential.

What is your division's advantage over competition in the wholesale market place?

What is your division's advantage over competition in the retail market place?

The following areas need to be considered in determining your competitive advantage: Distribution, Product(s), Promotion, and Advertising.

Marketing Opportunities and Threats

Knowing the division's competitive position in your market enables you to identify your opportunities and threats.

What are the specific opportunities and threats influencing your division's success going forward?

How does the customer perceive the division's advantages over competition in the buying process?

Statement of Objectives

In order to take advantage of your opportunities and defend your position, objectives must be established.

Define specific objectives which will take advantage of your opportunities and defend your position.

Action Plans

Once you have established your objectives, a specific action plan needs to be developed to achieve your goal. There are a number of areas that need to be addressed in your action plan.

Comment on the following areas as they pertain to your division:

- Distribution
- Product
- Advertising
- Promotion

Listed above are some of the traditional programs available for your action plan. However, the list is not meant to be all-inclusive. Other ideas can be developed in your Strategic Marketing Plan which support your objectives and defend your competitive position. Additionally, all programs should be viewed on a cost benefit basis. .

If your marketing plan includes other programs, please provide program(s) details and costs.

Sources of Information

I. *Internal Information*

- A. Current YTD Financial Statements
- B. Current YTD District Reviews
- C. Current Wholesale Shipment Report
- D. Current Retail Warranty Report
- E. Industry Forecast
- F. Current BOM information by product type
- G. Current average invoice information by product, by division
- H. State and Region Retail Report
- I. National Retail Performance
- J. YTD model analysis
- K. YTD product segmentation analysis
- L. COA Wholesale Dollar Market Share Analysis
- M. Owner survey information
- N. Dealer survey information
- O. Dealer and market rankings (A,B,C,D, & E classifications)

II. *External Information*

- A. Economic trends
- B. Statistical Surveys (mobile home, RV, motorized/non-motorized product reports)
- C. RVIA Wholesale Reports
- D. Competitive information
- E. Dealer prospect lists

Exhibit 3

A CONSUMER SERVICES PROVIDER

Consumer Services and Products
Strategic Plan

Mission

To become the premiere source of residential and commercial services and products to consumers in the United States and selected international markets. These services and products will be ones that improve the quality of life and assist the consumers in maintaining their property and surroundings.

Objectives

1. To develop the [Company] Quality Service Network, which will be made up of several service companies, each being specialists in their own field, which the consumer can access through one source.
2. To build market share in each of the operating units.
3. To maintain a minimum of X% annual increase in both revenues and profits.

The operational objectives are:

1. To make available the entire range of consumer services in a profitable and timely manner in all major markets in the U.S.
2. To establish and enforce quality standards among all the operating units.
3. To introduce some of the services into selected foreign markets.

The major marketing objectives of the [Company] Quality Service Network are:

1. Cross sell to existing customers of one [Company] operating unit the services of the other operating units.
2. Expand the customer base of the [Company] Network to include customers who have no services with any operating unit.
3. Increase customer loyalty and retention.
4. Expand the number of services available through the [Company] Quality Service Network.

Strategy

1. Each operating unit will continue to build brand awareness for its own service or product. [X], [Y], and [Z] will be promoted under their respective brand names.
2. All the different services and products will be linked together by the 1-800-XXX-XXXX number and the Partners Logo Block.
3. Channels of distribution will be increased by expansion of the services into all markets. Certain segments of the business may be more suitable to franchising while others should be company owned.
4. Foreign markets will be pursued with a minimum investment strategy. A foreign partner will be selected to license the know-how from [Company]. [X] will be the entering brand in the [foreign] markets.
5. The *Partners Pledge* will represent the minimum standards by which all operating units are measured. All [Company] service centers must agree to abide by the pledge before they will be certified to operate under the [Company] Quality Service Network umbrella. This Partners Pledge will be the network's guarantee to the customer that service will be delivered on time and that the job will be done right.

Summary of Mission and Objectives by Operating Units

[Company] currently provides the following services:

Residential and commercial cleaning of carpets, upholstery, and drapes; residential disaster restoration; contract cleaning services; residential home cleaning service; lawn care service; termite and pest control; home system care; and consumer products.

[Company] currently operates company owned franchise branches providing termite and pest control to residential, commercial and industrial customers. Many service centers provide other related services such as radon inspections, moisture control, and industrial weed control. Lawn care is provided in several markets.

Objectives:

A summary of the key objectives from the plan are:

1. To achieve a X percent increase in income before acquisition and partnership costs each calendar year.
2. To achieve a minimum X percent increase in corporate revenues each calendar year.
3. To maintain a steady increase in the pest control customer base of no less than X percent each calendar year and in the termite renewal base of no less than X percent each year.
4. To become the nations' largest pest control company by the end of 19—.
5. Add other services which are related and may be necessary to defend the existing customer base.
6. Expand termite and pest control services into markets which currently have no such service available.
7. Reacquire when possible existing franchise operations in certain major markets to accelerate growth and market share.
8. Franchise selected markets to obtain better coverage in these territories while maintaining a high ROI.
9. Establish pest control operations in selected foreign countries.

Exhibit 4

SONESTA HOTELS

Marketing Plan Outline

***Note: Please keep the plan concise—Maximum of 20 pages plus summary pages. Include title page and table of contents. Number all pages.

I. *Introduction*. Set the stage for the plan. Specifically identify marketing objectives such as "increase average rate," "more group business," "greater occupancy," or "penetrate new markets." Identify particular problems.

II. *Marketing Position*. Begin with a single statement that presents a consumer benefit in a way that distinguishes us from the competition.

III. *The Product*. Identify all facility and service changes that occurred in 1989 and are planned for 1990.

IV. *Marketplace Overview*. Briefly describe what is occurring in your marketplace that might impact on your business or marketing strategy, such as the economy, the competitive situation, etc.

V. *The Competition*. Briefly identify your primary competition (3 or fewer) specifying number of rooms, what is new in their facilities, and marketing and pricing strategy.

VI. *Marketing Data*

- A. Identify top 5 geographic areas for transient business, with percentages of total room nights compared to the previous year.
- B. Briefly describe the guests at your hotel, considering age, sex, occupation, what they want, why they come, etc.
- C. Identify market segments with percentage of business achieved in each segment in current years (actual and projected) and project for next year.

VII. *Strategy by Market Segment*

- A. Group
  1. *Objectives:* Identify what you specifically wish to achieve in this segment. (For example, more high-rated business, more weekend business, larger groups.)
  2. *Strategy:* Identify how sales, advertising and public relations will work together to reach the objectives.
  3. *Sales Activities:* Divide by specific market segments.
     - a. Corporate
     - b. Association
     - c. Incentives
     - d. Travel agent
     - e. Tours
     - f. Other

     Under each category include a narrative description of specific sales activities geared toward each market segment, including geographically targeted areas, travel plans, group site inspections, correspondence, telephone solicitation and trade shows. Be specific on action plans, and designate responsibility and target months.
  4. *Sales Materials:* Identify all items, so they will be budgeted.
  5. *Direct Mail:* Briefly describe the direct mail program planned, including objectives, message and content. Identify whether we will use existing material or create a new piece?
  6. *Research:* Indicate any research projects you plan to conduct in 1990 identifying what you wish to learn.
- B. Transient (The format here should be the same as group throughout)
  1. *Objective*

2. *Strategy*

3. *Sales Activities:* Divide by specific market segments.

   a. Consumer (rack rate)
   b. Corporate (prime and other)
   c. Travel Agent: business, leisure, consortia
   d. Wholesale/Airline/Tour (foreign & domestic)
   e. Packages (specify names of packages)
   f. Government/Military/Education
   g. Special Interest/Other

4. *Sales Materials*

5. *Direct Mail*

6. *Research*

C. Other Sonesta Hotels

D. Local/ Food & Beverage

1. *Objectives*

2. *Strategy*

3. *Sales Activities:* Divide by specific market segments

   a. Restaurant and Lounge, external promotion
   b. Restaurant and Lounge, internal promotion
   c. Catering
   d. Community Relation/Other

4. *Sales Materials* (e.g. banquet menus, signage, etc.)

5. *Direct Mail*

6. *Research*

VIII. *Advertising*

A. Subdivide advertising by market segment and campaign, paralleling the sales activities (group, transient, F&B).

B. Describe objectives of each advertising campaign identifying whether it should be promotional (immediate bookings) or image (longer-term awareness).

C. Briefly describe contents of advertising identifying key benefit to promote.

D. Identify target media by location and type (e.g. newspaper, magazine, radio, etc.)

E. Indicate percent of the advertising budget to be allocated to each market segment.

IX. *Public Relations*

A. Describe objectives of public relations as it supports the sales and marketing priorities.

B. Write a brief statement on overall goals by market segment paralleling the sales activities. Identify what proportion of your effort will be spent on each segment.

X. *Summary:* Close the plan with general statement concerning the major challenges you will face in upcoming year and how you will overcome these challenges.

Exhibit 5

BROWN GROUP, INC.

BRAND ______________________

ACTION PLAN

DESCRIPTION OF PLAN: ______________________

OBJECTIVE: ______________________

RATIONALE: ______________________

INVESTMENT/FUNDS REQUIRED: ______________________

BENEFITS:

Tangible: (including Sales & Profit contribution estimates) ______________________

Intangible: ______________________

		DATES:	
MAJOR STEPS	RESPONSIBILITY	BEGIN	COMPLETE

Exhibit 6

MARKETING PROGRAM PLAN
A LARGE BANK

Business Unit—Program Name

1. **Background**

Summarize what market conditions/situation led to this program and/or how it relates to the product's annual marketing plan.

2. **Program Summary**

High-level summary description of the program (including scope, content, etc.).

3. **Business/Marketing Objectives**

a. *Quantitative*. Specific, numeric, measurable goals for the program (e.g., $/# sales, share, inquires, etc.). If available, provide goals and past performance by Region/AMG.

b. *Qualitative*. Non-numeric goals (e.g., enhance employee sales effort, etc.).

Indicate how program performance will be tracked/measured relative to objectives a & b above.

4. **Marketing Strategies**

Planned action to achieve the objectives above. Discuss the product, pricing, promotion, delivery, field incentives, advertising, PR, etc. Discuss specifically *what role advertising will play* and specific *advertising objectives*.

5. **Target**

a. *Definition*. Demographics, psychographics, financial relationship/use.

b. *Frame of Reference*. What does the target already know about the category, our product and the competition? What are they concerned about? What is their primary problem? How do they shop for the product?

c. *Purchase Motivators*. What factors drive purchase selection (one brand vs. another)? Why would they buy [our bank], why wouldn't they?

6. **Competitive Frame**

What category are we competing in? Who are we primarily competing with (i.e., where will we source our volume to meet the objectives above)? Where do we stand vs. this competition? How do we compare to this competition on the Purchase Motivators above?

7. **Point(s) of Difference**

The factors that most distinguish us from the competition and will motivate purchase of us. Which factor is the most meaningful/motivating?

8. **Communication Objectives**

What we want the target to *think* and *do* as a result of the advertising. Be specific and focused.

9. **Creative Strategy**

What we must communicate to motivate the target to think and do what we want. Expressed as follows:

[Product] is better than [Competition] for [Target] because it [Buying Motivator] as a result of [Support for Buying Motivator]

The Competition and Target are summarized from the information in sections 5 and 6 above.

The Product is written as it will be described in the ad (e.g., "[Bank] Home Equity Loans and Lines of Credit").

The Buying Motivator is the *one*, essential factor that when communicated will produce the desired response. It must be singular and focused. Almost always expressed as a benefit, it can be a feature if the benefit is self evident.

The Support provides the reason(s) to believe the Buying Motivator and explains it. There may be more than one reason, but they must be listed in priority order and should include only the information to be communicated in the copy.

10. **Tonality**

    The basic character conveyed by the advertising.

11. **Executional Guidelines**

    Indicate copy mandatories (e.g., legal/corporate requirements, #800, linkage to corporate theme, etc.).

12. **Offer Details**

    Provides additional details of how the offer (if any) is structured and will work. The information is for background purposes and unless it is included in the Support or Executional Guidelines sections above, it will not necessarily appear in the copy.

13. **Timing**

    Specify timing for the program (include documentation of product seasonality, if available), and key milestones.

14. **Budget**

    Specify the budget for the program.

Exhibit 7

Description of Elements of a Marketing Plan
Industrial Products Division, The Goodyear Tire and Rubber Company

General Market Planning Information

1. **What Is an Annual Marketing Plan?**

Broadly speaking, an Annual Marketing Plan is a document that sets forth (a) business goals, and (b) action programs required to achieve those goals for a twelve-month period. Here is a more precise definition:

The Annual Marketing Plan is an organized, documented, written communication that does these things—

a. Defines the business situation—past, present, and future.

b. Defines the opportunities and problems facing the business.

c. Establishes specific and realistic business objectives.

d. Defines marketing strategy and action programs required to accomplish the objectives.

e. Pinpoints responsibility for execution of programs.

f. Establishes timetables and controls for execution of programs.

g. Translates objectives and programs into forecasts and budgets which provide a basis for planning by other departments of the company.

2. **Checklist in Development of a Plan**

a. Situation analysis.

b. Formation of objectives.

c. Development of strategy.

d. Action assignments.

e. Management endorsement.

3. **Why Do Some Marketing Plans Fail?**

a. Lack of a real plan.

b. Lack of an adequate situation analysis.

c. Prepared without adequate participation of supporting functions (production, development, advertising, etc.).

d. Unrealistic goals.

e. Plan not adequately "sold" during and after preparation.

f. Unanticipated competitive moves, unanticipated product deficiencies, and acts of God.

4. **Reasons Why Market Information Is Needed.**

a. Nothing replaces cold, hard facts to direct market planning efforts.

b. To identify *problems* and *opportunities* from which marketing objectives will be established.

c. To guide the planning of other company functions.

5. **What Kinds of Facts Are Needed for Market Planning?**

a. Who are the users, where are they located, and how much do they buy, who do they buy from and why?

b. How has promotion and advertising been employed and which approach has been more effective?

c. What are the pricing changes in the market—who has initiated these changes and why?

d. How are the market's attitudes and values formed concerning competitive products?

e. What channels of distribution supply consumers and how do they function?

f. Who are the competitors, where are they located, what advantages/disadvantages have they compared to our company?

g. What marketing methods are used by the most successful competitors? By the least successful?

h. What are the overall objectives of the corporation for the coming year and five years hence?

i. What are the company strengths? Where are we recognized as leaders?

j. Where does the company have limitations and weaknesses compared to competition?

k. What are our production capabilities in all product lines?

6. **Sources of Market Information**

a. Outside the Company

1. Customers (most important source)
2. Competitive literature
3. Suppliers
4. Trade magazines
5. Trade associations
6. Professional organizations

b. Government

1. Census data
2. Patent reviews
3. Federal publications

c. Inside the Company

1. Market research reports
2. Sales call reports (data requested to be keyed to develop market information)
3. Orders
4. Complaints
5. Informed persons
6. Past year's customer correspondence
7. Sales meeting summaries
8. Technical reports

Exhibit 8

Marketing Planning Cycle
Merck Sharp & Dohme, Division of Merck & Co., Inc.

First Quarter

- Product Managers' Quarterly Reports (previous quarter's results).

Second Quarter

- Sales Forecasts—Current year estimated actuals and forward planning for next two years.
- Product Managers' Quarterly Reports (previous quarter's results).
- Annual Marketing Strategy Review Meeting.
- Prepare Marketing Strategy Profiles for next year.
- Cost Promotion Program for next year.
- New project proposals sent to Research.
- Prepare guest physician program for next year.

Third Quarter

- Sales Forecasts—Current year estimated actuals and forward planning for next two years.
- Finalize next year's Promotion Programs.
- Product Managers' Quarterly Reports (previous quarter's results).
- Marketing management formal review of next year's Promotion Program.
- Review next year's profit plan with divisional management.

Fourth Quarter

- Sales Forecasts—Current year estimated actuals and forward planning for next two years.
- Product Managers' Quarterly Reports (previous quarter's results).
- Review next year's profit plan with corporate management.
- Complete Marketing Strategy monograph for next year.
- Prepare next year's strategic plan (5-year long-range plan).

Exhibit 9

HUNTER-MELNOR, INC.

LIGHTING
Table of Contents

I. Industry Analysis
- Market Size & Trends
- Distribution Channels
- Competitive Situation

II. Product Background
- Categories
- Brand Determination
- Recent Purchases
- DIY Demographics
- Discount Store Fixture Sales

III. Situation Analysis
- Problems
- Opportunities
- Critical Issues

IV. Lighting Objectives/Strategies
- Objectives
- Product Strategy
- Product Road Agenda
- Product Development Schedule
- Pricing Schedule

V. Product Development
- Distribution Strategy
- Manufacturing Strategy
- Communications Strategy
- Communications Budget

VI. Financial Summary

VII. Lighting Opportunity Recap

Exhibit 10

COUNTRY COMPANIES

Development Of Strategic Plan

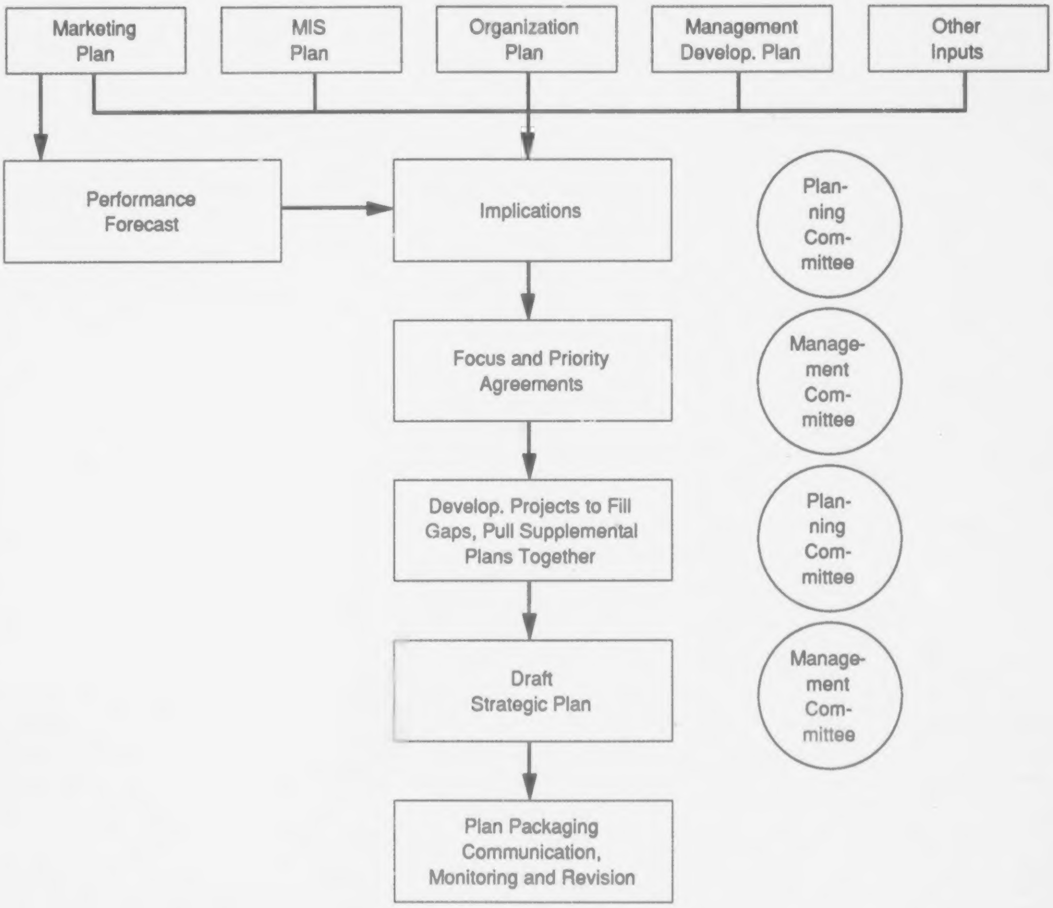

Marketing Plan
MIS Plan
Organization Plan
Management Develop. Plan
Other Inputs
Performance Forecast
Implications
Focus and Priority Agreements
Develop. Projects to Fill Gaps, Pull Supplemental Plans Together
Draft Strategic Plan
Plan Packaging Communication, Monitoring and Revision
Planning Committee
Management Committee
Planning Committee
Management Committee

Exhibit 10 (cont.)

COUNTRY COMPANIES

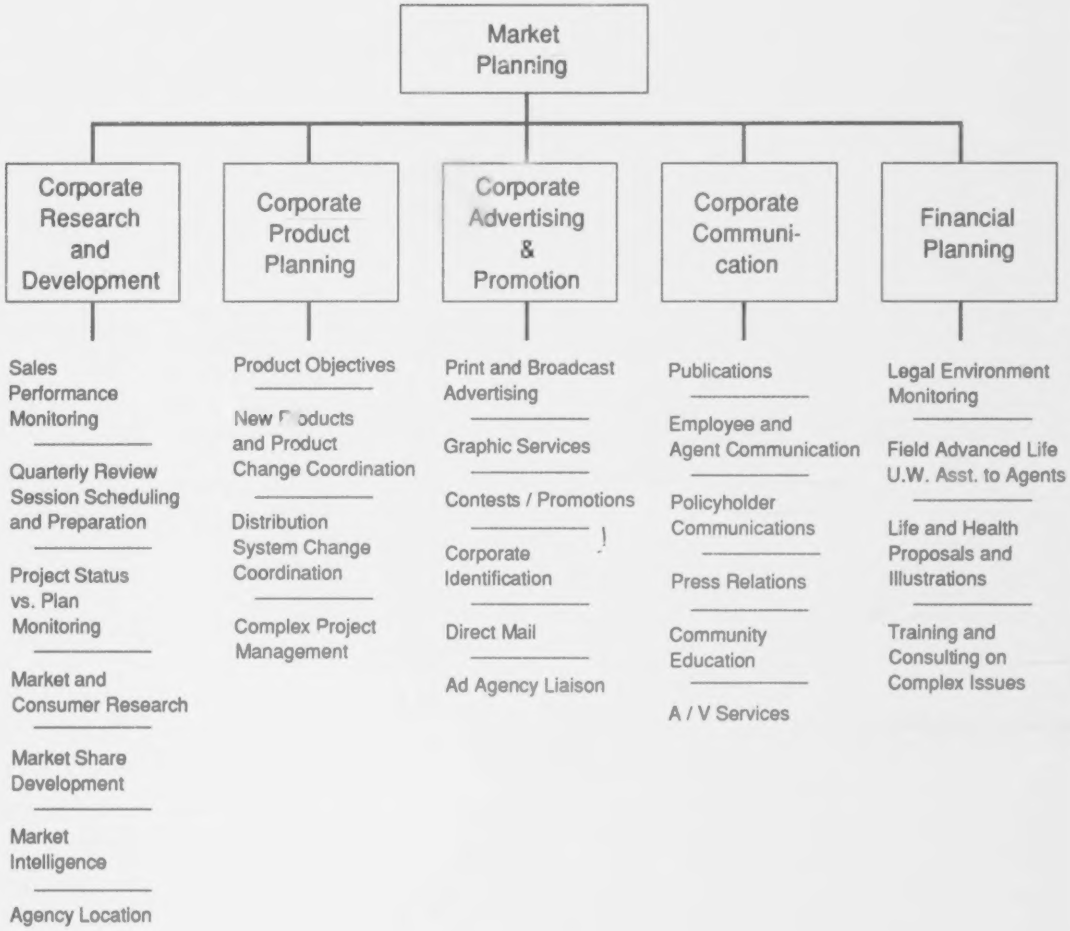

Market Planning
Corporate Research and Development
Sales Performance Monitoring
Quarterly Review Session Scheduling and Preparation
Project Status vs. Plan Monitoring
Market and Consumer Research
Market Share Development
Market Intelligence
Agency Location
Corporate Product Planning
Product Objectives
New Products and Product Change Coordination
Distribution System Change Coordination
Complex Project Management
Corporate Advertising & Promotion
Print and Broadcast Advertising
Graphic Services
Contests / Promotions
Corporate Identification
Direct Mail
Ad Agency Liaison
Corporate Communi-cation
Publications
Employee and Agent Communication
Policyholder Communications
Press Relations
Community Education
A / V Services
Financial Planning
Legal Environment Monitoring
Field Advanced Life U.W. Asst. to Agents
Life and Health Proposals and Illustrations
Training and Consulting on Complex Issues

Exhibit 10 (cont.)

COUNTRY COMPANIES

Plan Packaging, Communication Monitoring and Revision

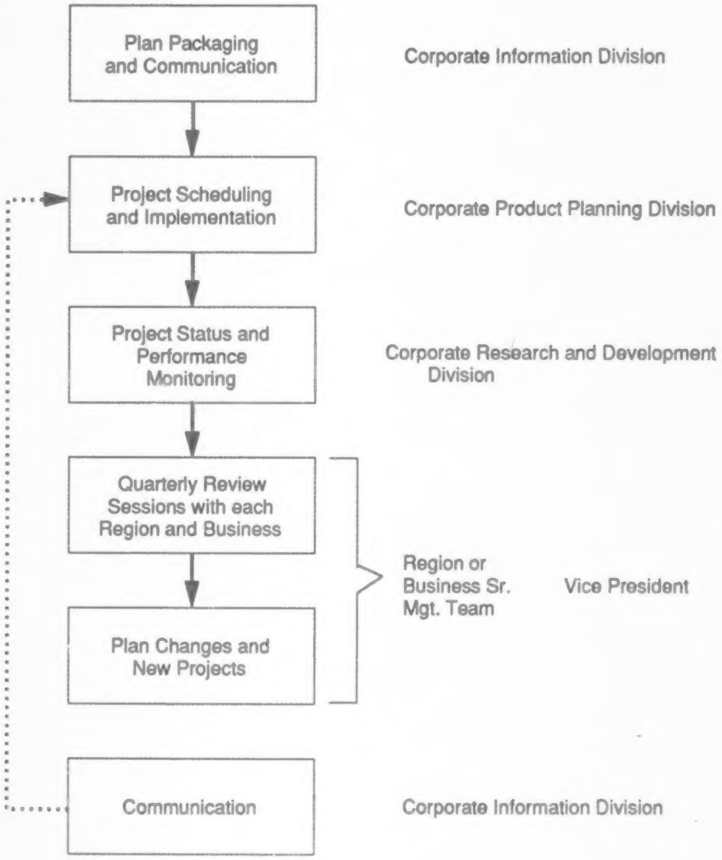

Plan Packaging and Communication
Corporate Information Division
Project Scheduling and Implementation
Corporate Product Planning Division
Project Status and Performance Monitoring
Corporate Research and Development Division
Quarterly Review Sessions with each Region and Business
Plan Changes and New Projects
Region or Business Sr. Mgt. Team
Vice President
Communication
Corporate Information Division

Exhibit 11

E.I. DU PONT DE NEMOURS & COMPANY

Business Plan Outline

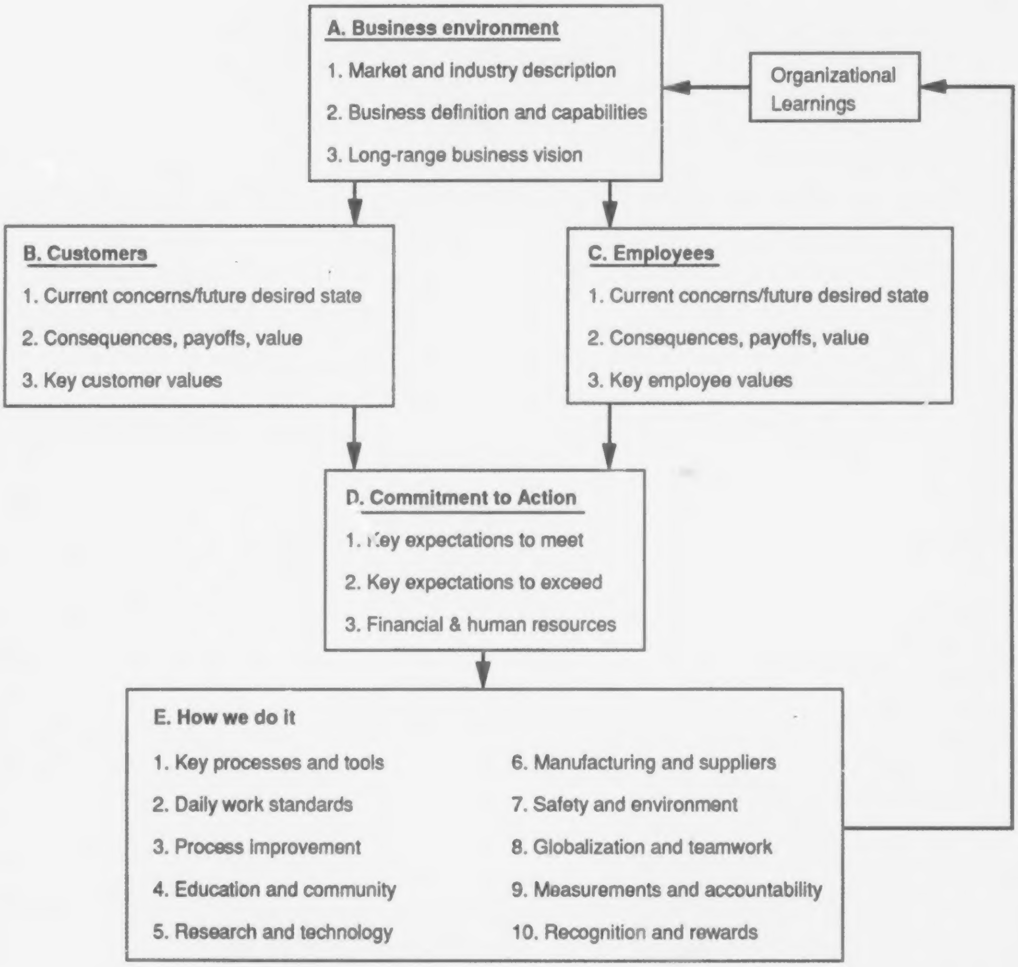

A. Business environment
1. Market and industry description
2. Business definition and capabilities
3. Long-range business vision
Organizational Learnings
B. Customers
1. Current concerns/future desired state
2. Consequences, payoffs, value
3. Key customer values
C. Employees
1. Current concerns/future desired state
2. Consequences, payoffs, value
3. Key employee values
D. Commitment to Action
1. Key expectations to meet
2. Key expectations to exceed
3. Financial & human resources
E. How we do it
1. Key processes and tools
2. Daily work standards
3. Process improvement
4. Education and community
5. Research and technology
6. Manufacturing and suppliers
7. Safety and environment
8. Globalization and teamwork
9. Measurements and accountability
10. Recognition and rewards

Exhibit 12

AC ROCHESTER DIVISION
GENERAL MOTORS
1990-1994 Business Plan

Marketing Plan
Business Unit Profile

PRODUCT OFFERING:

MAJOR CUSTOMER GROUPS:

Customers	*Projected 1990 Calendar Year % of SBU Sales $*	*Primary Regions: (North America, Asia-Pacific, Europe, Other)*
GM OEM		
Outside OEM		
Aftermarket		
GM OEM		
Outside OEM		
Aftermarket		

BUSINESS UNIT ASSESSMENT:

Strengths/Opportunities:

Weaknesses/Threats:

COMPETITIVE PROFILES:

Major Competitors	*% World Share*	*Strengths*	*Weaknesses*	*Strategic Thrusts*

Exhibit 12 (cont.)

AC ROCHESTER DIVISION
GENERAL MOTORS

Marketing Strategies

MAJOR MARKETING STRATEGIES:

Product Area	*Target Market Segments*	*Market Objectives*	*Key Customers*	*Marketing Strategies*

PRODUCT SUMMARY:

Product/Subsystem	*1990*	*1991*	*1992*	*1993*	*1994*	*Increasing Emphasis (+) Maintaining Emphasis (o) or Decreasing Emphasis (-)*	*Rationale/ Comments*
% of SBU Sales $ Sales ($000,000 Omitted)							
% of SBU Sales $ Sales ($000,000) Omitted							
% of SBU Sales $ Sales ($000,000) Omitted							

Exhibit 13

PPG INDUSTRIES, INC. - GLASS GROUP

Market Development Plan

(New Market/Business/Product Line)

Format:

1. Summary to define and describe the new market/business/product.
   - A. Life cycle status and implications (1 page - text)
2. Objectives of the venture (both marketing and financial - 5 years). (1 page - text and statistics)
3. Strategies and practical guidelines for the initial (2 years) operations of the business. (3 pages - text)
4. Business segment analysis, including: (5 to 10 pages - text and statistics)
   - A. Background history
   - B. Barriers to entry
   - C. Market overview/market segments
   - D. Potential demand, by segment and in total
   - E. Competing products - producer strength/weakness analysis
   - F. Problems/opportunities
   - G. Risks/threats
5. Pricing analysis, cost/price/volume relationships, profitability trend. (1 page - text and statistics)
6. Manufacturing parameters: (2 pages - text and statistics)
   - A. Facilities/location(s)
   - B. Product mix
   - C. Inventory
   - D. Delivery
   - E. Order cycle
   - F. Learning curve
7. Sales and distribution organization; relevant product/marketing priorities. (3 pages - text)
8. Key determinants of success with venture. (2 pages - text)
9. Contingency/sensitivity analysis. (1 page - text and charts)
10. Tactical action step program, including: (5 pages - text and chart)
    - Marketing goals
    - Sales goals
    - Manufacturing operations
    - Support activities (advertising, technical services, etc.)
11. Exhibits (if any).

Table 1: Most Important Changes in Procedures for Preparing Plans

Question: Compared with, say, five years ago, what are the most important changes in your procedures for preparing marketing plans?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
More input from other groups	28%	24%	16%
More integration with company strategy	19	21	26
More formal, standardized	17	24	13
More focus on competitiveness	15	5	10
More focus on customers/markets	15	8	10
Plan is longer/more complex	9	8	10
Didn't have formal marketing plan in past	9	10	13
More emphasis on execution	9	11	3
More use of computers	7	6	3
Plan is shorter/less complex	6	11	-
More focus on short term	6	3	-
Responsibilities better defined	4	8	3
More focus on long term	1	11	3
Planning more decentralized	2	3	13
Objectives better defined	-	2	16
Planning more centralized	-	2	10
No change	5	3	-
Other (e.g., more lead time, better information, used to rely on consultants)	13	8	10
Number of respondents	96	63	31

Table 2: Topics Included in Top Management's Directive

Question: If management does predetermine objectives, which of the following topics are included in this top-down instruction?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Profit goals	69%	73%	73%
Sales goals	56	53	52
Budget constraints	52	56	79
Choice of target markets	42	33	46
Market share goals	39	46	42
Pricing strategy	39	42	50
New product/service development	39	33	35
Market penetration strategy	30	20	23
Cash flow goals	29	26	25
Product or service positioning	26	33	50
Production constraints	26	18	17
Distribution strategy	24	26	31
Advertising and promotion strategy	23	27	27
Number of respondents	109	66	48

Table 3: Most Important Changes in Content of Plans

Question: Compared with, say, five years ago, what are the most important changes in the content of your marketing plans?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
More customer/market focus	35%	26%	26%
More competitive analysis	21	16	15
More analysis and rationale/ more realistic	18	21	15
More specific objectives and measurements	14	23	19
More focus on strategy	14	20	7
More focus on action	13	18	19
More quantitative/factual/ research information	6	10	7
More focus on profit / return on investment	4	7	7
More focus on global issues	4	3	-
More detailed forecasts	3	7	4
More emphasis on differentiation	3	2	4
More emphasis on long term	3	-	4
More focus on short term	3	-	-
More environmental analysis	2	5	4
No change	1	2	-
Other	9	12	11
Number of respondents	91	61	27

Table 4: Objectives Covered in the Plan

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Market share	77%	77%	69%
Profit margins	76	74	63
New product/service development	68	65	63
Field sales effort	59	44	65
Sales to major accounts	59	33	46
Pricing policy	55	56	54
Product quality	52	58	50
Customer/product service	51	39	56
Export sales	48	18	4
Sales promotion	39	47	31
Inventories/physical distribution	39	29	8
Advertising expenditures	38	49	50
Distributor/dealer relations	36	23	25
Sales training	32	32	40
Marketing research	30	47	52
Advertising themes	28	49	50
Regional selling and promotion	23	38	27
Other marketing overseas	20	9	15
Packaging	11	29	8
Telemarketing	10	18	23
Number of respondents	109	66	48

Table 5: Emphasis on Objectives: 1980 vs. 1989

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to plans?

	1980	*1989*
INDUSTRIAL PRODUCT MANUFACTURERS		
Increased emphasis on:		
Customer/product service	41%	51%
Decreased emphasis on:		
Field sales effort	72	59
Marketing research	44	30
Advertising themes	41	28
CONSUMER PRODUCT MANUFACTURERS		
Increased emphasis on:		
Customer/product service	28	39
Decreased emphasis on:		
Sales promotion	69	47
Advertising expenditures	64	49
Field sales effort	64	44
SERVICE FIRMS		
Increased emphasis on:		
New-product development	52	63
Profit margins	45	63
Marketing research	39	52
Pricing policy	39	54
Advertising expenditures	39	50
Sales to major accounts	26	46
Decreased emphasis on:		
Sales promotion	52	31

Note: This table records only those cases where there has been an increase or decrease of at least 10 percentage points. For example, 41 percent of the 1980 respondents indicated that customer/product service was covered in their plans, and 51 percent reported the same thing in 1989, the difference is 10 percentage points. This item qualifies for inclusion in this table. This rule also applies to Tables 7, 9, and 11.

Table 6: Strategies or Tactics Covered in the Plan

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Market share	72%	68%	56%
Pricing policy	67	67	71
Field sales effort	62	58	77
New product/service development	62	67	75
Sales to major accounts	60	47	54
Profit margins	56	52	46
Customer/product service	52	39	69
Sales promotion	46	67	65
Export sales	45	17	8
Distributor/dealer relations	42	32	35
Advertising themes	37	67	63
Inventories/physical distribution	36	38	13
Product quality	34	53	42
Advertising expenditures	32	53	42
Sales training	29	30	46
Regional selling and promotion	28	56	52
Marketing research	26	46	54
Other marketing overseas	24	11	19
Packaging	18	42	13
Telemarketing	15	21	31
Number of respondents	109	66	48

Table 7: Emphasis on Strategies and Tactics: 1980 vs. 1989

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	1980	*1989*
INDUSTRIAL PRODUCT MANUFACTURERS		
Increased emphasis on:		
Customer/product service	38%	52%
Packaging	4	18
Decreased emphasis on:		
Marketing research	38	26
CONSUMER PRODUCT MANUFACTURERS		
Increased emphasis on:		
Sales to major accounts	32	47
Inventories/physical distribution	27	38
Decreased emphasis on:		
Pricing policy	77	67
SERVICE FIRMS		
Increased emphasis on:		
New-product development	55	75
Customer/product service	52	69
Sales promotion	45	65
Marketing research	45	54
Pricing policy	42	71
Profit margins	32	46
Advertising expenditures	29	42
Sales training	26	46
Sales to major accounts	26	54
Distributor/dealer relations	23	35

See note on Table 5.

Table 8: Action Programs Covered in the Plan

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Field sales effort	66%	67%	73%
Market share	65	61	50
New product/service development	63	64	79
Sales to major accounts	63	44	50
Sales promotion	61	73	75
Profit margins	53	46	48
Pricing policy	52	42	56
Sales training	49	42	69
Export sales	46	21	10
Customer/product service	44	39	75
Product quality	41	39	50
Marketing research	39	58	69
Distributor/dealer relations	39	39	31
Inventories/physical distribution	39	35	17
Advertising themes	35	52	56
Regional selling and promotion	32	53	52
Advertising expenditures	31	56	58
Packaging	23	44	23
Other marketing overseas	22	12	17
Telemarketing	21	26	58
Number of respondents	109	66	48

Table 9: Emphasis on Action Programs: 1980 vs. 1989

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	1980	*1989*
INDUSTRIAL PRODUCT MANUFACTURERS		
Decreased emphasis on:		
Advertising expenditures	46%	31%
CONSUMER PRODUCT MANUFACTURERS		
Increased emphasis on:		
Sales to major accounts	31	44
Decreased emphasis on:		
Pricing policy	54	42
SERVICE FIRMS		
Increased emphasis on:		
Field sales effort	61	73
New-product development	58	79
Customer/product service	58	75
Marketing research	55	69
Sales training	55	69
Sales promotion	48	75
Advertising themes	42	56
Profit margins	36	48
Advertising expenditures	32	58
Sales to major accounts	29	50
Pricing policy	23	56
Packaging	13	23
Inventories/physical distribution	3	17

See note on Table 5.

Table 10: Support Information Spelled Out in Detail

Question: Below are various other factors that some companies include in marketing plans, while others do not. Which ones do you include?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Forecast of market demand	80%	74%	40%
Market segmentation	78	86	83
Market share of leading competitors	75	66	52
Changing needs of customers	68	58	61
Technological trends	62	24	45
Competitive intelligence	59	45	40
Appraisal of risk factors	47	46	32
Changing distribution channels	40	52	42
Alternative strategies seriously considered	34	24	23
Environmental issues	31	16	38
Government regulatory issues	26	25	40
Product life-cycle analysis	26	15	17
Contingency plans, to be triggered if specified events occur	24	20	17
Postmortem on previous plan	24	11	7
Assigning product or service to position in some kind of portfolio management matrix	24	25	20
Number of respondents	97	61	47

Table 11: Emphasis on Support Information: 1980 vs. 1989

Question: Below are various other factors that some companies include in marketing plans, while others do not. Which ones do you include?

	1980	*1989*
INDUSTRIAL PRODUCT MANUFACTURERS		
Increased emphasis on:		
Market segmentation	56%	78%
Changing needs of customers	56	68
Technological trends	47	62
Appraisal of risk factors	35	47
CONSUMER PRODUCT MANUFACTURERS		
Decreased emphasis on:		
Government regulatory issues	38	25
Technological trends	39	24
Alternative strategies seriously considered	34	24
Environmental issues	29	16
Postmortem on previous plan	25	11
SERVICE FIRMS		
Increased emphasis on:		
Market segmentation	60	83
Technological trends	30	45
Product life-cycle analysis	7	17

See note on Table 5.

Table 12: Most Critical Problems in Preparing Plans

Question: Briefly, what do you see as the most critical problem or difficulty that a person preparing a marketing plan in your company has to overcome?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Hard to get consensus/cooperation	18%	5%	21%
Not enough time to prepare properly	16	18	7
Hard to make forecasts	10	8	0
Not enough useful information available	8	8	3
Top management unrealistic about goals	5	5	3
Plans not taken seriously enough	5	0	10
Not enough strategic thinking/direction	4	3	7
Market changes too fast	4	3	3
Not enough top-management commitment	3	3	3
Have to plan too far ahead	3	2	0
Company isn't market-oriented	2	3	14
Too much focus on short term	2	7	0
Inertia / resistance to change	1	5	3
Other	23	32	28
Number of respondents	98	60	29

Table 13: Main Shortcomings of Plans

Question: What do you consider to be the main shortcomings of your marketing plans?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Not realistic enough	19%	14%	11%
Not enough competitive analysis	17	5	7
Not specific enough	16	12	33
Not enough market information	16	16	11
Not taken seriously enough	13	9	15
Not enough strategic emphasis	12	14	7
Too much emphasis on short term	10	14	26
Not sufficiently up-to-date	9	18	7
Inadequate contingency plans	9	9	4
Inadequate performance measures	8	12	15
Not executed well	7	4	7
Not integrated with other plans	7	2	4
Not enough input from other groups	5	5	4
Not adequately communicated to other key groups	4	0	4
Not enough focus on customer	3	11	4
Objectives not well defined	3	11	15
Takes too much time and effort	3	4	0
Other	4	25	19
Number of respondents	93	57	27

Related Conference Board Publications

Creating Customer Satisfaction, Report 944, 1990

Decision-Support Systems for Marketing,
Report 923, 1989

Getting Value from Strategic Planning, Report 915, 1988

Competitive Intelligence, Report 913, 1988

A Growing Role for Business-to-Business Telemarketing, Report 912, 1988

Commercial Development of New Products,
Report 890, 1986

Competitive Leverage, Report 876, 1985

The Marketing Plan, Report 801, 1981

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The Conference Board

Report Number 953

Computer-Based Sales Force Support

- *performance gains reported in productivity, account management and communications*
- *systems use improves customer relationships*
- *shifts in sales roles foster reliance on better systems*
- *laptop computers and more powerful software boost system effectiveness*

About The Conference Board

Founded in 1916, The Conference Board's twofold purpose is to improve the business enterprise system and to enhance the contribution of business to society.

To accomplish this, The Conference Board strives to be the leading global business membership organization that enables senior executives from all industries to explore and exchange ideas of impact on business policy and practices. To support this activity, The Conference Board provides a variety of forums and a professionally managed research program that identifies and reports objectively on key areas of changing management concern, opportunity and action.

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Computer-Based Sales Force Support

by Louis A. Wallis

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Before coming to The Conference Board, Mr. Wallis served as a marketing consultant and researcher, performing client research on digital plotters, Computer Aided Design, and office automation.

From the President

This report underscores the continued importance to selling efforts of information technology. It extends the investigation that began in 1986 with the report, *Computers and the Sales Effort*. In these times of strenuous competitive activity and sensitivity to customer needs, the performance and productivity of the salesperson are on the leading edge of companies' efforts to improve service to their customers and preserve hard-won market positions.

Although many more companies now use these systems, a large number do not. For companies considering their use, the experiences of current user companies should help clarify the basic issues. The Conference Board thanks those companies who participated in the research, and the consultants and vendors who offered advice.

PRESTON TOWNLEY
President and CEO

Executive Summary

Better sales management—through control and feedback from the field—was the single most important benefit of computer sales support systems, respondents reported. Activities that computer sales support systems (CSS) improved and that contributed the most to selling performance were sales force productivity, customer account management, and communications between the field and headquarters.

In manufacturing companies, the top three CSS applications were customer account management, communications, and checking orders. In service companies, the top three were database activity, preparing proposals, and preparing presentations.

Higher sales force productivity was the CSS objective companies most often sought. Often "soft," qualitative results were accepted, as opposed to scarcer "hard" dollar results.

Companies report substantial success at attaining computerized sales system objectives. The median achievement level was 75 percent for companies with CSS in an operational mode and 35 percent for companies with systems in the pilot stage. (The operational group of responding companies had been operating systems for a median of three years; the pilot group operated for about nine months.)

Nearly all companies used multi-function task forces to develop new CSS, and nearly all began with a pilot program. There is a growing trend of buying CSS software instead of developing it in-house. Two-thirds of the reporting companies modified purchased software to meet their special needs. If they were to start over again, more than half of the operational group and two-thirds of the pilot group would use the same vendor.

One-half of the companies reported experiencing "serious" shortcomings with their CSS at one time or another.

The majority of CSS users can access marketing databases, but in one-half the companies they can also access manufacturing databases. Laptop computers are gaining popularity. In the pilot group, 53 percent of companies used laptops, while in the older operational group only 15 percent did.

Median CSS costs including hardware, software, training and upgrades, were $5,000 per user.

Comparisons with 1986 Report

Results of the present study differ considerably from the one done by The Conference Board in 1986 (*Computers and the Sales Effort*, Report No. 844). In the current study, 50 percent of the sample have CSS, compared to slightly more than 25 percent in 1986. The number and variety of applications have grown. In 1986, the average CSS supported eight applications; now more than ten are supported.

1989 CSS Applications Compared With 1986 Applications

	Percent of Companies Reporting	
	1989	*1986*
	Base = 201	*Base = 85*
Customer account management	63	31
Database inquiries	63	30
Word processing	60	39
Checking orders	58	46
Forecasts	53	37
Spreadsheets	51	30
Entering orders	50	50
Checking inventory	44	40
Time management	29	34
Prospecting	29	14
Reporting expenses	26	29

Previously, only 20 percent of the responding companies claimed that enhanced customer support was a result of CSS use—now nearly half make that claim.

Four years ago, nine out of ten CSS computers were desktop units. Increased laptop and portable use, however, has reduced that number to seven out of ten. In the newer pilot programs, half the units are laptop computers.

New devices such as modems, telefax, and cellular telephones were scarce four years ago, but are now taken for granted, adding to CSS user support.

Competitive intelligence is the most often planned future application for CSS, but current usage is low.

Introduction

This report extends the inquiry into computer support for sales forces which began in 1986 with The Conference Board Report *Computers and the Sales Effort.*[1] The abbreviation "CSS" will be used throughout this report to describe computer sales support systems.

Since the earlier report, a great many anticipated developments, such as more powerful hardware for lower prices, better software, additional applications, and communications networks, have occurred. Unexpected responses turned up as well, such as a lack of emphasis on "competitive advantage," apparent acceptance of "shadow" productivity gains instead of hard dollar alternatives, and a pro forma approach to demonstrable dollar payback.

A competitive advantage is not always evident, although it no doubt exists. It wasn't widely sought as a hoped-for benefit. Positive results are nevertheless here: productivity (broadly defined), quicker response to customers, better communications with the field, and vastly more information conveniently available to field forces. Operational flexibility, although not widely reported, was another gain that was valued highly. The ability to reorganize, reassign, and redirect the sales effort when necessary was perceived as an important tool.

Saving time can result from salespeople's use of support systems, but several companies reported the opposite—increased administrative time because of system use. The reason: salespeople were gathering and processing information on-site that formerly was forwarded to a central processing location. Because the overall productivity of marketing benefited as databases were updated more quickly and accurately, mailing campaigns were more effective. Companies that reported this felt the effort was worthwhile.

Because the character of selling is changing, the integration provided by sales support systems becomes very valuable. Selling is a more interactive process because buyer-seller relationships have become more expanded in terms of the product development cycle; customers and providers work together beyond the actual sale. Upstream, before the sale, they are linked by consultation and advice, the ongoing process that includes design assistance, the exchange of technical data; and linked downstream in the form of service, maintenance, performance upgrading, etc.

---

[1] Louis A. Wallis, *Computers and the Sales Effort*, Report 884 (New York: The Conference Board, 1986).

Method

This report is based on a survey sample of 285 sales and marketing executives who answered an initial or follow-up mailing to 1,100 companies or company components. Thirty or so companies were interviewed by telephone (half were follow-ups of questionnaire respondents and half were new respondents). Fifty percent responded for their entire company and 50 percent for an operating component. Eighty percent were manufacturers and 20 percent were services providers. There was a 50-50 split between consumer products and services and non-consumer products and services. Median annual sales for reporting organizations were approximately $230 million.

Number of Salespeople and Distribution Methods

The median size of direct, outside sales forces in companies using CSS is 75 persons. The range extends from 20 in the first quartile to 300 in the third. The assigned customer accounts spanned an assortment of users, OEMs, and distributors. Of the 285 responding organizations, 230 had direct, outside sales forces; 123 had inside sales forces; 91 used manufacturers reps; and 89 used telemarketing. Of the direct sales force, 19 percent sold only to resellers; 24 percent sold only to users; and 34 percent sold to both users and resellers. The remainder were "no answers."

Size of Direct, Outside Sales Force

	Number of Salespeople
25th Percentile	20
Median	75
75th Percentile	300

Number of Salespeople in each Company Using CSS

	Number of Salespeople
25th Percentile	12
Median	35
75th Percentile	300

[Sixteen responding companies had sales forces of 1,000 or more.]

Respondents divided into four groups: 138 had fully operational systems; 63 had pilot programs; 39 were in a planning stage; and 45 respondents had no system of any kind described by the questionnaire. The 201 companies with functioning systems supplied the bulk of the information in this report.

Terminology

The survey questionnaire defined CSS as follows: "This survey is about computerized sales support systems. Such systems are designed specifically for sales forces and their managers. They can differ from company to company, but many share common elements. Ordinarily, salespeople actively use them in their daily work. Frequent uses include entering orders, tracking customer accounts, retrieving price and product data, reporting on sales calls and the like, plus personal tasks such as word processing, spreadsheets, and voice and data communications. Sales support systems employ a variety of computer types, but laptops are often used outside the office."

"Sales Information Systems" was the name companies chose most often to describe their sales support systems—chosen by 29 percent of the companies. (Use of the term "Sales Support System" in the questionnaire definition may have stimulated this particular response.) Some of the more imaginative titles were: CLASS (Customer-LTV Advanced Sales Services), FASSST (Fully Automated Sales Support Systems), and ASSET (Automatic Sales and Service Enhancement Technology).

Terms Companies Use to Describe Sales Support Systems

Base = 240

Sales Information Systems	29%
Sales Support Systems	21
Sales Force Automation	13
Computer Support System	11
Computer Sales System	5
Sales Lead, Prospecting Systems	4
Other	22

Changing Sales Roles with CSS

Psychologist Larry Hirschhorn describes the subtle but important shifts taking place in selling today:

> The post industrial milieu is particularly stressful because it progressively integrates a once-fragmented division of labor, forcing workers to take account of many more facts, people, and claims. It becomes harder to ritualize work and reduce it to a set of regular procedures and formulas. When I studied an information services company, I saw how once simple selling jobs were becoming more complicated and anxiety provoking. The company sales force in the past had simply sold bibliographies to librarians in organizations with large research units. But as competition grew and computers made it easier to create specialized bibliographies, the company found that it had to develop custom-made bibliographies of scholarly articles and books for particular academic disciplines and researchers. Moreover, they discovered that the researchers increasingly wanted to search for references using computer-based tools.
>
> This shift in demand complicated the sales task. Instead of selling a fixed product, the salesperson had to work with the customers' researchers, information specialists, and librarians to design a specialized product. The sales process was broadened to include such activities as investigation, design, and negotiation as the product was increasingly coproduced with the customer. Moreover, the salesperson had to interact more intensively with the production specialists in her own company to make sure that they could provide the requested services. The old sales call was transformed into a riskier design-and-negotiation process. By entering more deeply into the customer's world, the salesperson integrated producer and consumer by knowing much more about each. [2]

The Shifting Information Power Balance

Salespeople working in today's marketing environment must have powerful tools at their disposal in order to work effectively with newly "information-affluent" customers. Scanners at retail check-out counters generate enormous amounts of valuable data, and manufacturers' sales representatives are encountering growing numbers of retailer customers whose formidable array of information resources rivals their own. This decisively contrasts with the past unidirectional flow of vital market data from the manufacturer to the retailer.

Now the information is "pushing back," one manufacturer said, as retailers generate their own information about sales volume, brand shares, and other marketing data. The information provided by suppliers no longer gets automatic customer acceptance; it's subject to discussion, interpretation, and validation.

The kinds of information available to the manufacturer's salesperson on a capable CSS are described by one manager whose company calls on retail stores:

> We're concentrating on quality and service, and getting away from the mundane information—we're now reporting only customer-useful information. We will have very few canned reports—and they are not designed to check up on people but to spot trends and help our customers see that we can provide value-added. We will be totally customer oriented.

The salesperson is increasingly the "point person" who presents to the customer the combined efforts of separate company functions: product development and design; advertising, merchandising and promotion; R&D and manufacturing, etc. In some instances, this is done by building customer relationships, acting as a consultant, and even "coproducing" the product with the customer. As more customers pare their supplier lists (as Xerox has done—from 5,000 to 300), stronger customer-supplier bonds will develop. The customer-manufacturer contact intervals go beyond the sale itself, both backward and forward. Contact is continuous, not only at the time of the sale, but before that, in design assistance and cooperation, and later, through service and follow-through. As one manager described it:

> Customer focus in 1990—that's the goal. We want to help the sales force interact more constructively with customers.

---

[2] Larry Hirschhorn, *The Workplace Within: The Psychodynamics of Everyday Life* (Cambridge, MA: MIT Press, 1988), p. 6.

> We want to get beyond just the "sales system" and focus on customer results. People in my company want to automate call reporting and expense reporting, but I'm not interested in that. You're just imposing data entry chores on the field—not improving selling. Building sales is the key, not just getting information back to headquarters so people can analyze it.

Commenting on a survey identifying salesperson traits that are important to the customer, an executive of a CSS systems vendor said there was common agreement that, from the customers' standpoint, a salesperson's responsiveness was the most important trait, followed by product knowledge.[3]

In addition, some companies look to their salespeople as business managers who must assume some profit responsibility for their assigned customer accounts. Simply reaching sales quotas is no longer enough. These higher order, or managerial, kinds of responsibilities will not yield easily to conventional salesperson productivity measures such as "two more customer calls per week," or "sales are up 5 percent per person." Changes, however, can provide benefits as solid as productivity gains. New contributions can emerge from the CSS systems that are apart from a simpler "productivity" measurement. A typical respondent viewpoint on the sales force productivity benefits of CSS was: "You just have to believe it's going to happen, and avoid spending the large amount of time and effort documenting it. Get the results first."

Also, an objective effort to quantify productivity cannot take into account only the time spent eye-to-eye with customers. Occasionally, the ten minutes spent searching a database in order to anticipate a customer's questions at an upcoming meeting may be the most productive interval of one's day. Some scholars in the field (Quinn, etc.) say that even manufacturing companies will find that, as they strive for competitive advantage, a growing proportion of their output characterized as "value-added" will consist of service-related activities that contribute to better customer relationships. A CSS can help foster these relationships. For example, a salesperson can match a customer's needs to product or service capabilities, while targeting company-to-company differences that enable the alert marketer to pull ahead of competitors.

This is also true when company representatives contact customers not to place an order, but to persuade, inform, and recommend. For example, a pharmaceutical salesperson can motivate a physician to prescribe his company's product even though the physician is not the actual buyer.

In a similar way, a construction products company representative calls on architects and developers, not to transact a sale, but to build future sales by informing and guiding those who specify construction materials. In one case, the sales are in fact handled by a separate selling organization in the company. The quality of this encounter is important. As one expert put it: "The frontline person's willingness to handle that contact with diligence and flair is often critical to success of the enterprise."

The Productivity Issue

The sales process in general is undergoing changes that need to be considered when examining sales force productivity. The concept of productivity must include the entire marketing and sales organization since their elements are increasingly intertwined and integrated.

Also worth examining is whether circumstances have altered the sales tasks: whether the CSS has created new opportunities for analysis and strategy formulation which may increase, rather than reduce, work for salespeople. This may become a plus to the marketing mission and, if achieved, may contribute benefits as valuable as productivity gains for the sales force. Some have called these less quantifiable gains "shadow productivity."

Commenting on such effects, one executive pointed out that "the classical measures [of productivity], such as sales per employee or time to process a customer order, fall short of effective measurement because they fail to assess the full value of the output. For example, a customer who learns an item is out of stock can immediately select an alternative." The system contribution in such a situation may be positive but hard to quantify. It's possible that this attention to customer's needs would fortify the supplier's image in the eyes of the customer and make it less likely that a competitor could gain an advantage without a strenuous effort.

Measuring sales force productivity may be considered part of a broader problem that continues to perplex corporate management. In a recent survey of CEOs, 83 percent felt that there are no adequate measurements for determining the return on information systems (IS). The survey also reported that future IS investments will be concentrated in sales and marketing, and in consumer contact and service areas. The executives saw failure to change basic ways of doing business and failure of employees to learn to use the existing systems as the biggest obstacles to successful IS use.[4]

With the increasing use of CSS, it's entirely possible that the sales force may spend more time in the office instead of less. At one consumer products company, salespeople used to spend one half day a week in the office, working on reports and customer accounts; now

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[3] Paul Morris, vice president, Envoy Systems, quoted in "Sales Reps Embrace Sleeker Laptops," *PC Week*, May 8, 1989, p. 12.

[4] "People Problems are the Biggest Hurdles," *PC Week*, October 23, 1989, p. 12.

Lynch, Jones and Ryan

Successful results in some companies begin and end with a clearly defined process—the sales cycle—which rewards those salespeople who use it faithfully and use it to structure all their selling activities. Such a system is well-illustrated by the institutional brokerage firm of Lynch, Jones, and Ryan, a Citicorp company in New York City. The Plan Sponsor Service division of the firm sells a service it calls a "commission recapture program" to the sponsors of large investment programs such as pension funds, endowments, and foundations. Quite simply, if a sponsor agrees to direct its outside money managers to trade through Lynch, Jones, and Ryan, the sponsor will receive a rebate on the commissions charged on these equity trades. There is no charge for the service other than the actual commission, and it comes as close as anything to the mythical free lunch, according to the director of the operation. (The genesis of the program was an entrepreneurial reaction to a U.S. Department of Labor paper that clarified several issues relating to ERISA funds, plus the esoteric concepts associated with the investment process.) Nevertheless, a selling effort is involved because a lot of information needs to be provided to prospective clients and three to five personal sales calls need to be made for each signed contract.

The vice president in charge of the system explains: "If you study any sales situation you find that an inordinate amount of time is spent identifying prospects. Once identified, you spend a lot of time developing adequate information about them, then you have to secure an appointment with the prospect, and structure the interview. You also need to be able to monitor progress of where you are in the sales cycle and do follow-up activities. We set out to design a personal computer product that would do this." The company wanted to combine a large database composed of the Money *Market Directory*, its primary source of prospects, and other databases that structured and monitored the sales process each step of the way. The system implemented does "about 80 percent of what we need done." The new system did not need modifications to work successfully in this application although Lynch, Jones, and Ryan was prepared to change its work processes to use the standard package. This decision was based on the desire to quickly get the system running.

The main output for clients is a 35-page, leather bound proposal. Because the process is computerized, a proposal can be produced quickly. "We have learned," the vice president explains, "that our sales cycle is about 135 days from initial contact to successful contract signing. We define success as four new accounts a month, per salesperson. We know that approximately 40 meetings a month lead up to that result, and three to five personal meetings are needed to close a sale. That's because, although the basic concepts are simple, it can take a lot of supporting information to make it sink in. Multiple contacts are necessary within a prospect organization, and if dealing with a public fund, salespeople must usually work with investment committees. In personal meetings we try to build trust and eliminate roadblocks to the sale. We don't actually 'ask for the order,' because if the process is faithfully followed, the outcome is obvious. The salespeople must spend much time on the telephone and about 50 percent of their time traveling. If they are willing to do this, they will succeed—if not, they will fail. We have learned this very thoroughly."

Management believes there is a straight line connecting activity and sales productivity—if the activity takes place, a sale will follow. "The computer support system makes it possible because you know what you have to do to reach your goal," continues the executive, "and exactly where you are each step of the way because there are mileposts, and progress reports are created along the way. Because the system is so inextricably tied to our work, it would be hard to envision it working without the computer system. From a management point of view, the system also provides useful tools for coaching salespeople. Their activities are plugged into the system, and their status on each prospect is apparent. What follows from what happened last is readily visible, and the quality of executing each step can be judged from one salesperson to another. The procedures are not canned, but scripted, and the whole thing works. It's like a circle—you can enter the process at any point, but you still must travel 360 degrees. The successful sales outcomes follow a predictable path, and this can be shared and learned by all."

they spend a whole day. This is "partly because of new demands we have made to get the information we need. Everybody has to participate or it doesn't work," explains the marketing executive at the company.

An executive at a large oil company expresses a similar view: "We originally wanted the system to provide salespeople more selling time with customers. But what it probably has done is add some administrative load because some associated support people were eliminated—the middle layer of people is going away. Electronic mail is partly the reason. So, it [CSS] has had a different kind of impact from what we planned. But the sales representatives have had to shoulder more work, and they realize this. Productivity of the whole system probably grows, but maybe not that of the salesperson. Another thing is that people in the company see the system in place and start wanting to add things to it."

Some companies feel that trying to measure salesforce productivity gains because of CSS just wasn't worth the effort—they were convinced of CSS's worth. Robert Arakelian, MIS director at Godiva Chocolatier, reportedly said: "Godiva's goal was to give its field personnel a tool to help them make better presentations, supply more information and be more helpful to the customer. We weren't looking for a hard dollar payback." [5]

[5] "Laptops Leave Sour Taste in Sweets Maker's Mouth," *Computerworld*, January 29, 1990, p. 37.

Another question is, "Can CSS produce a paper-free sales office environment?" One executive responded:

> The CSS has drastically reduced paper output, but in this company it is probably still 50 percent paper. The 50 percent of the information that's on the computer probably has 80 percent of the useful information. We download many reports to laptops. Some reports are just too large to keep on databases. Probably not cost-efficient to go beyond where we are now. It will be possible for salespeople to not use any paper reporting if they don't want to. We will provide report formats, but they can customize reports any way they want.

Some companies simply reported that they were not interested in paper savings—even more paper might be used, some said, but they were not concerned about it. At James River Corporation, a paper company, the system is designed so that information and reports are generated by the day-to-day activities themselves and require no special "systems activities" to gain benefits of use. The company's salespeople will not have to report any information if they don't want to. "We'll be giving the salesperson more information than he gives us," claimed a marketing executive at the company.

General Foods USA

Although General Foods USA was willing to accept some "soft" dollar results and savings from its newly-developed CSS (called Force 90), as it examined the practices to be improved it also set ambitious goals for "hard" dollar benefits such as improving selling time by 25 percent and reducing administrative time by 50 percent. The administrative burden on the salespeople was between 15 to 30 hours a week. The 50 percent reduction depended on a 20 percent savings from territory analysis and competitive intelligence, 18 percent from just saving time, and 12 percent savings from communications. The number of SKUs (stock-keeping units—separate inventory items) is growing, and fewer people are doing more work. A large volume of important information was becoming outdated before appropriate action could be taken, and the communication process was too slow.

The Force 90 development team discovered 15 major categories of activities that offered the best potential for improvement. Three of the top ones were call reporting, trade deals, and communications including data transfer. Order processing is handled separately by Customer Service Coordinators. EDI is used only with large customers. Communications and reports received great attention, and developing standardized formats created reports on call reporting, account management, shelving and pricing information, trade deals, and (very important) time management.

GF has settled on the use of laptop computers, believing they are more versatile for communications and word processing. A communications package was in use before the current CSS software from Envoy Systems was acquired.

Many of the GF salespeople work out of their homes. They all have modems to use with the laptops and interface with the IBM PROFS communications package. Users typically log on the system once a day—before 8 a.m. or after 5 p.m., for example. The system is not on-line, but users still get an overnight turnaround on inquiries about a trade deal. Results from the system have been very encouraging. The communications system has a "Route-A-File" feature that allows binary file transfers from one computer to another, so that salespeople can exchange Lotus 1-2-3 types of data and graphics. If one sales rep has developed a graphic presentation another thinks might be useful, it can be readily transferred. Reporting lead time has been reduced by 3-10 days. Realigning territories, which used to be a very time consuming activity, taking weeks in some cases, now takes only several days. These important changes can result from customer changes, opening or closing stores, or salespeople leaving the company or retiring.

Hard savings have resulted from lowering communications costs (phone, postage, mailing, copier), and numerous soft savings have surfaced. Salespeople have a higher level of confidence in their information and have a greater sense of professionalism. They seem to be making more presentations, more business reviews, and doing work that wasn't done before, and they feel better about the decisions they make. Very important, the working relationship between sales and GF Information Systems has been smooth and productive.

CSS Objectives

At the heart of CSS lie the separate functions that salespeople do to accomplish their sales tasks. These are called "applications" in computer jargon; therefore, this term will be used to mean those functions that are harnessed to sales activities.[6] There may be some overlap in the list of applications shown, but this method helps us to visualize how a salesperson is supported by the CSS.

Applications for customer account management and communications are at or near the top for all companies using CSS. According these applications a high priority recognizes that salespeople accomplish their sales objectives by accessing and managing large amounts of information. For example, managing customer accounts comprises elements such as customer purchasing history, sales volume (and profitability, to an increasing degree), special customer requirements, key contacts at the company, buying influences, last date called on, and scheduled calls. Not only can the history of a single customer be accessed in depth, but a salesperson searching for sales opportunities can also compare the present customer's purchasing volume with similar customers' purchases to decide whether the review customer's purchasing potential is greater than its current buying would suggest.

Manufacturers employ marketing and selling programs different from those of services providers, and their separate CSS reflect those differences. Separate CSS applications are therefore shown for these two industries in Tables 1 and 2.

"Analyzing customer needs" turns up as an application at a high level of 60 percent in services companies and 43 percent in products companies. This might be expected because an intangible product such as an insurance policy doesn't exist until it incorporates benefits designed for one specific customer.

An application such as entering orders is subject to influences that may change its emphasis and use as it involves the sales force. Some managers have always felt that it was wasteful and counterproductive to use a highly trained salesperson as an "order entry clerk," because it could erode valuable selling time. It makes more sense, they would argue, to place order entry with lower paid, clerical personnel who may be more accurate be-

Table 1: CSS Applications in Manufacturing Companies

Combined operational and pilot groups.

Applications	*Percent of Companies Using*
Customer account management	66%
Communications	66
Checking orders	64
Database activity	63
Word processing	62
Forecasting	55
Spreadsheets	54
Entering orders	52
Checking inventory	51
Budgeting	46
Pricing	46
Presentations	45
Analyzing customer needs	43
Proposals	43
Reporting sales calls	42
Graphics	40
Product information	40
Time management	31
Reporting expenses	30
Prospecting	26
Competitive intelligence	22

Base = 166

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[6] The "applications" referred to here are separate tasks from the salesperson's point of view. This does not imply that, for example, "checking orders" is one isolated computer application and "database activity" another. From a systems point of view, both activities may use elements of the same database, or appear to the user to do so.

Sonesta Hotels Corporation

This brief system description illustrates how the vital effort of building and maintaining customer relationships—so essential in a service business—is supported by a CSS. The vice president of sales at Sonesta Hotels faced a problem of coordinating sales department information about meetings, conventions, tour groups and other functions with telemarketing and sales activity. He wanted to deal more effectively with collection and dissemination of information on accounts to salespeople in regional sales offices and to individual hotels.

For a large customer like the American Marketing Association with hundreds of meetings a year, there is a tremendous number of records that have to be available in different locations. Before deploying the CSS, there were problems with reporting and monitoring all this information on multiple clients, multiple meetings, and multiple locations in a month-end report. Information generally flows from outlying points to Boston headquarters, then is analyzed and sent back.

Before the company settled on a CSS from SNAP, Inc., it examined many different software packages but found most to be too inflexible for necessary customization. The systems judged unacceptable either grew from accounting systems, front desk systems or were made for product organizations—all inappropriate for Sonesta. The Vice President comments: "We needed a pure sales system rather than an add-on system, and those available were mainly developed for product manufacturers. Services are different—they are more complex; there are different kinds of sales to be made; and most important, there is a long-term rapport building with customers that is essential. There is a lot of "tracing" work to be done in hotel sales—future meetings, solicitations, schedule dates, deposits, floor plans, and room assignments. History is very important in building customer relationships and that is what we wanted. It gets very complicated." Customer information tends to be centralized, but centralized data on hotel units is not especially useful considering that rates and occupancy are constantly changing.

Telemarketing activity originates at Boston headquarters. To date, the system has worked well. "It is now much easier to identify and monitor the 20 percent of the customers at the core of our services, and office efficiency has benefited.

But I don't think you can look at any sales system in terms of cost savings. That's a mistake many managers make. How much money is saved is less valuable than what people can do with the time created." Monthly and quarterly reports on prospective business are generated, as well as data on business booked, lost business, canceled business, and all are available by sales region and market segment. Hotel units can use this information to help plan their activities. A plan is being considered to have the database available on a nationwide scale to allow all persons on the system to learn about and follow any customer contact.

Table 2: CSS Applications in Services Producing Companies

Combined operational and pilot systems

Applications	*Percent of Companies using*
Database activity	71%
Preparing proposals	69
Preparing presentations	66
Customer account management	60
Analyzing customer needs	60
Communications	57
Word processing	57
Pricing	54
Prospecting	49
Product information	49
Forecasting	43
Reporting sales calls	43
Budgeting	43
Spreadsheets	40
Graphics	37
Entering orders	37
Checking orders	34
Time management	26
Reporting expenses	20
Competitive intelligence	20
Checking inventory	9

Base = 35

cause they perform the activity full-time every day—and to free the higher-paid salesperson to concentrate on customer contact. In some cases, order entry systems were one of the first sales activities to be computerized, predating, by some years, the CSS. Having run successfully for years, some of these order entry systems resist modifications that must be made just to accommodate CSS. It may be important in certain circumstances for the salesperson to work with the customer to create an order; in these cases, entering the order simply concludes the sales process.

Order entry will also be affected in the future by systems such as EDI (electronic data interchange, a computer-to-computer communications system already used by one-third of the responding companies), especially between larger customers and suppliers. EDI eventually will have features that allow buyer and seller to be tied together even closer. Some respondents indicated that CSS will eventually work with their company's EDI system—if it doesn't already.

Thirty percent of the manufacturing companies, but only 20 percent of the services companies, use CSS for reporting salesperson expenses. This may be because services providers need to be in close contact with their clients, or contact them more often by telephone, and are less likely to incur out-of-office expenses.

Using CSS for pricing illustrates one of the biggest benefits of being able to manage and communicate a large volume of prices and price changes. A further benefit is in the form of "expert systems" which offer a degree of automation to complex pricing problems.

The pricing software used by 3M's Broadcasting and Related Products Division is an example. 3M's division was finding it difficult to quickly generate accurate prices for complex broadcasting equipment called routing switches. These products are assembled from many sub-components which create an enormous number of possible end-product combinations. Before the new pricing system, it took too long to quote a price—about two days for two pricing experts at headquarters to prepare a price for quotation—and there were too many errors. Salespeople and customers grew frustrated, and the process annoyed everyone. The new computerized system can prepare a price in a matter of a few minutes, is easy to use, and is available for use on personal computers. There is now global access to the system; even marginal prospects formerly shunned by salespeople can now get quick, easy quotes. "What if" options can readily be explored. In its first three years of operation, the new system delivered a 12 percent annual increase in the number of quotes, with no added personnel.

Setting The Major Sales Systems Objectives

Boosting sales force productivity and sales force effectiveness were the predominant objectives for the CSS. Four major fields emerge as the nucleus for all other functions of the CSS, no matter how complex it may eventually become: productivity, information, customer support, and communications.

In Chart 1, total responses are given by companies with operational systems and companies with pilot program systems. This division contrasts the older (operational) systems with newer (pilot) systems, and also contrasts complete with partial systems. The contrast occurs since pilot systems usually employ fewer applications, do not contain their full complement of applications, and have not reached their full operating efficiency.

Some CSS objectives that might have been expected from respondents were seldom mentioned: only 2 percent of CSS were installed to gain a competitive edge; only 1 percent to produce a "professional sales effort"; 4 percent to react faster; 2 percent to increase sales; and 4 percent to increase face-to-face selling time. However, since CSS are no longer "new" (having existed in various forms for at least 10 years), companies just now implementing them are no longer, by virtue of this alone, at the cutting edge of technology or selling sophistication, nor are they likely to achieve an unqualified competitive advantage with CSS.

Companies that pioneered these systems now have 5-10 years experience with them—a lead that cannot be easily eliminated by a competitive system just coming on-line. Perhaps more important is the growing acceptance of the belief that competitive vigor comes from the same place it always has—from satisfied customers who have bought quality products from a reliable, attentive supplier. Certain goals of marketing success seem to transcend simply adopting CSS in pursuit of competitive advantage in the abstract—notably the solid goal of building higher quality, longer-lasting customer relationships. The sales system that enhances that effort is on the right track, and these company-specific efforts may be much harder for a competitor to emulate than simply using a certain kind of CSS.

A notable difference between the responding operational companies and pilot companies is that pilot companies more often ranked productivity the number one objective. Pilot systems less often sought the objectives of preparing proposals and presentations, order entry, and generating strategies.

Desirable results such as customer satisfaction, better sales force morale, and more productive plans, to name a few, have normally been accepted as benefits despite their hard-to-quantify nature. (CSS goals that are hard to quantify but often desirable are sometimes called "soft" goals.) These "soft" goals are pursued in the belief that at some point the "hard" results (sales and profits) will follow.

Finally, management awareness of the balance between the still-falling cost of computing power and the still-rising costs of qualified salespeople has encouraged companies to deploy sales support systems.

Chart 1: Major Sales Support System Objectives

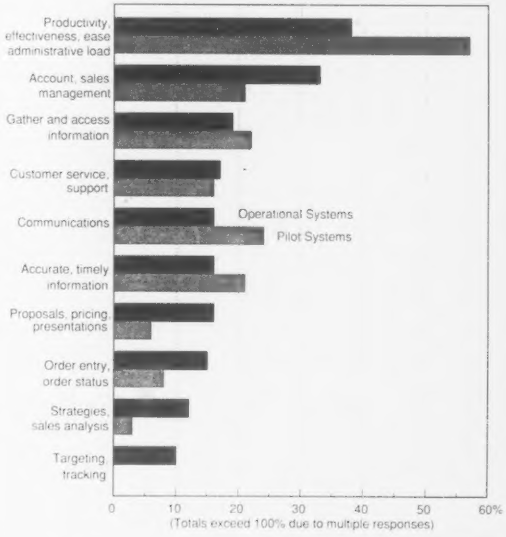


Table 3: Extent of Achieving CSS Objectives

Level of Achievement	*Operational Group*	*Pilot Group*
90+%	15%	0%
80	23	5
70	28	5
60	14	10
50	11	16
40	3	16
30	11	4
20	11	1
10	1	8
0	0	3
No answer	6	8

Success at Reaching CSS Objectives

Companies with operational (as opposed to pilot) CSS report considerable success in reaching system objectives (see Table 3). The median achievement level was 75 percent. Companies with pilot systems reported a median achievement level of 35 percent. This lower level may be the result of measuring progress toward yet-to-be-realized goals, including a partial complement of applications being tested, as distinct from the operational group which probably evaluated the system's performance with the full range of applications.

Activities Significantly Improved by CSS

The term "activities" attempts to convey more realistically than "applications" the tasks done by salespeople, because activities often combine applications. Customer account management, for example, may include such applications as accessing databases, communications, and report generation. Table 4 lists activities improved by CSS, and Table 5 lists activities that not only were improved by CSS but were also judged to have contributed strongly to sales results or selling performance. All items shown were ranked 1, 2, or 3 out of the list of "significantly improved" activities.

Somewhat puzzling are activities that were said to be "significantly improved" but were not perceived as contributing greatly to sales by the company. An example is "professionalism" of the sales force, which saw improvement in 57 percent of the companies, yet only 14 percent said it significantly improved sales or selling performance, and only 8 percent listed it as a benefit. At a time when the term is used haphazardly to describe many activities, the presumed benefit of being more "professional" may be in doubt.

"Competitive intelligence" also scored quite low as an anticipated benefit, and was one of the least used elements of CSS. It nevertheless was one of the top applications scheduled for addition to ongoing CSS.

Table 4: Activities "Significantly Improved" by CSS in Use

	Percent of Companies Reporting
Customer account management	66
Communications with the field	63
Sales force productivity	59
"Professionalism" of sales force	57
Customer satisfaction	46
Sales volume	43
After sale support	41
Customer presentations	41
Preparing proposals	40
Budgeting, goal-setting	37
Order-shipment cycle	37
Available selling time	35
Call reporting	27
Configuring products	25
Prospecting	22
Coordinating account teams	22
Sales calls per week	21
Reporting-controlling expenses	21
Competitive intelligence	20
Sales costs	18
Closing the sale	18
Reducing errors	12
No answer	34

Base = 138

Reduction of sales costs as a result of CSS use was not viewed as a significant accomplishment for most companies nor was it said to have made a valuable contribution to results.

Single Most Important Benefit of CSS

When asked to name the single "most important" benefit of using CSS (see Chart 2), executives named managing the sales force—control and feedback—followed closely by productivity, access to data, and faster response to customers. A few of the benefits that turned up—such as faster response to customers and more timely information—were not always sought when designing the system.

For reasons not entirely clear, some benefits that have been imputed to CSS ranked fairly low as realized benefits: "professionalism" of the sales force, higher sales, creating a competitive advantage, and providing more selling time for salespeople. Professionalism and higher sales ranked fairly high as activities that were "significantly improved" by the use of CSS, but in spite of this, they were not viewed as the "most important" benefits for the majority of companies.

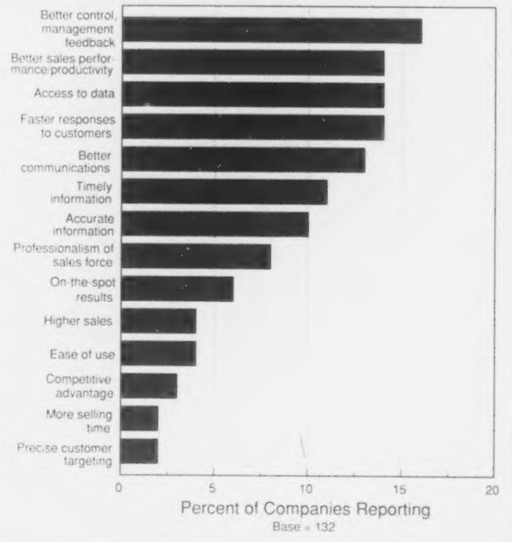
There were some instances of sales gains:

Table 5: Activities "Improved" by CSS that Contributed the Most to Sales or Selling Performance

	Percent of Companies reporting
Sales force productivity	36
Customer account management	32
Communications with the field	28
Preparing proposals	20
Customer satisfaction	19
Customer presentations	17
"Professionalism" of sales force	14
Order-shipment cycle	13
Sales volume	12
More selling time	10
Budgeting	10
Closing sales	7
Configuring systems	7
Prospecting	7
After sale support	7
Call reporting	7
Sales calls per week	4
Reporting sales expenses	3
Error reduction	3
Reducing sales costs	2
Competitive intelligence	2

Base = 138

Chart 2: Most Important Benefit of Using CSS



A petroleum company whose salespeople called on service station operators made it possible to answer gasoline pricing questions using economic data retrievable by laptop computers that could plot sales volume sensitivity to price changes based on past experience. The effect on profits at various price levels of gasoline could readily be estimated for the service station operator—and larger quantities of fuel could be sold on the premise that lower prices would stimulate demand.

A large trucking company was one of the first to provide databases which customers can access to determine the status of their shipments. Although it no longer has an "exclusive" on this, it does provide a salable benefit, and earlier it provided a competitive advantage.

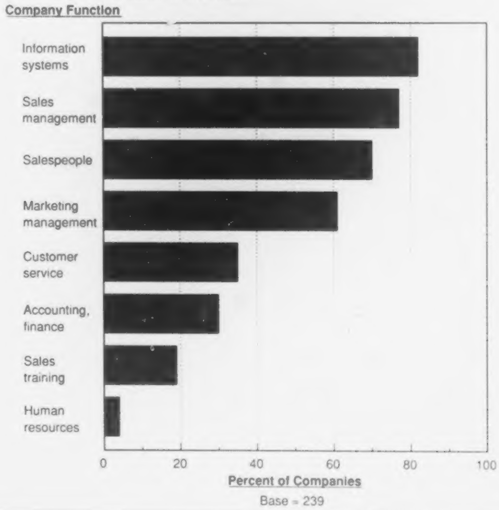
An industrial products company has what it calls "customer situation analysis" available on its CSS, which includes a variety of competitive intelligence. For each customer, salespeople are able to learn the total consumption of specified products from competitors as well as their own company and can map strategies to get a larger share.

Getting Started

Formal proposals for CSS often contain most of the following items: primary long-term objectives, intended performance applications, estimated costs and payout or recovery, scheduled checkpoints, and follow-up activity and method of evaluation. Most companies that have installed CSS for their sales forces have done so in stages. These have usually included:

1. Studying operating needs and setting broad goals;
2. Establishing performance objectives;
3. Preparing a formal proposal;
4. Establishing a pilot program for testing the proposed system;
5. Evaluating the pilot program results and making necessary modifications in the system;
6. Applying the system to the entire sales force.

Chart 3: Functions Participating in CSS Development and Implementation Task Forces



Use of Consultants

One-fourth of the respondents used consultants in a variety of capacities in setting up their CSS. The principal services were providing systems programmers, writing the programs, defining system requirements, and customizing the software for the user. A few companies used consultants to help select the software, for support tasks, and for smoothing the system introduction to the sales force users.

Use of Task Forces to Develop Systems

Eight out of ten companies employing CSS used task forces to develop and implement the systems. Chart 3 reports the functions represented on these task forces. It is surprising that less than a quarter of the companies included sales training and human resources people on their task forces, given the common wisdom that these systems function at full effectiveness only if they are well-accepted and well-understood by well-trained users.

Origins of CSS Software

Once a company decides to employ CSS, it must decide whether to develop the necessary software or buy it. Buying the necessary system software, as opposed to developing it, seems to be the current trend assuming that the practices of the pilot companies are more current (since they were developed more recently) than the operational companies, six out of ten pilot system companies bought their software, compared to the five out of ten operational system companies that developed their own.

Regardless of its source, nine out of 10 companies modified the software to better meet their needs. Some of the changes were made directly by the users and some were made by vendors for the users.

In the Conference Board's 1986 survey, systems were developed in-house mainly because software then available from vendors was likely to need major changes to meet company-specific needs. The anticipated degree of software modification was the key issue—and to some extent it still is—but emphasis now centers on the ease and flexibility with which software can be modified. Nowadays, changes in purchased software are seen as desirable and all but inevitable; only in this way will the system fully meet the special needs of the sales organization.

For some companies purchasing CSS software, one question went beyond the capabilities of the software itself, namely, the perceived willingness of the software vendor to modify its systems to accommodate a client. System purchasers believe this accommodation sometimes foretells the quality of future relationships. More than one respondent said that vendors failed to get their business because they couldn't accept the vendors' assurances that "we can meet your needs doing things our way."

Three additional factors encourage companies to buy rather than to build: (1) The capabilities of CSS system vendors have grown along with their experience in serving different clients. For example, some system vendors specialize in one particular industry with the result that a manufacturer can turn to a supplier with some assurance that its specific needs can be met. (2) There continues to be a shakeout of system vendors which leaves a remaining core of well-established and financially sound suppliers backed by such corporate giants as AT&T and Dun and Bradstreet. (3) Internal information systems departments' continuing backlogs of work, high internal development costs, and long lead times discount the virtue of self-sufficient corporate information systems. An extension of this "buy-instead-of-build" policy is the placement of a company's entire IS department with outside contractors—for example, as Eastman Kodak has done with IBM. On a smaller scale, buying CSS software may spring from similar motivations.

"Cheap" CSS software designed for one or a few users on PCs also deserves note. These small software packages were not usually taken seriously (still true for some users), but they have grown in usefulness and capability. While their performance cannot equal that of full-fledged, multi-featured systems, these PC programs can, in some cases, give a feel for what is possible with CSS within a company, and even satisfy some simple requirements. Some of the high-end system vendors even

Bank of New England

Financial services continue to make effective use of CSS to accomplish essential tasks that, while strictly speaking are not "marketing," manage the crucial relationship between service provider and customer. One is the Bank of New England, which has a strategic business unit devoted to serving affluent clients. The unit provides a full range of services which includes basic deposits, trust and asset management, and lending.

The Relationship Manager is the key person at the bank who needs to know all the services the bank has to offer (and even services outside the bank), as well as the special needs of each client. The primary goal of the system is to help the RMs manage their tasks and their time more efficiently, and to insure uninterrupted service to valuable customers and minimize or avoid disruptions caused by transfers or departures of officers from the bank. The goals were: to provide a real time management tool—a productivity booster; to improve the level of personal customer service; to "plug cracks" to insure that the investment manager knows what the trust officer knows, and vice versa; and to provide opportunity detection and follow-through—to be able to implement needs discovered. Few of the objectives were quantifiable. All were expected to add to the level of service, which was one definition of how to succeed in this business niche.

A common element in such developmental situations is the "technology champion," who believes things can be improved by adroit use of available kinds of support systems—and so it was at this bank. Management did not especially believe that by implementing a CSS it would be at the cutting edge of marketing or customer service, but it was convinced that without the system they would lag their competitors.

Getting all the essential decision-makers and users to commit to the idea and settle on the information needed was "not easy," according to the spokesman. A pilot program was begun in May 1989, and was only recently completed. To develop the new system, four groups at the bank were involved: business development, credit officers, fiduciary specialists, and investment managers.

The system chosen was one developed by Advanced Management Systems, Inc. Part of this program's appeal is described by one of the executives involved: "We liked the vendor for a lot of reasons, but most importantly, we wanted less of a sales management system and more of a relationship management system. Sales systems are driven by management's need to know what field sales is doing. We didn't want that. AMS allowed our kind of customization—we thought our needs were different and didn't want to be shoe-horned into a standard category."

So far, the system is working well. To ensure usage of the system, weekly reports were required to be done on the system. One thing has become apparent: simply because a computer system is used to "manage" a very sensitive relationship, the relationship is not completely "automated" or put on a conveyor belt. To the contrary, clients have been impressed by the the bank's awareness of personal details and specific conversations that are relayed to them. If done right, the whole thing becomes transparent to the user and the relationship is improved.

view these small packages as benign because they serve to whet users' appetites for "the real thing." These low-cost systems may also serve as a deterrent to overbuying with a more expensive system. They do this by teaching greater discernment and focus on the routines and features that are truly needed and productive so that a later decision to upgrade will more likely succeed.

Possibly the most dangerous outcome of underbuying a system can occur when a company exceeds the capabilities of the low-cost system. It may discover it has a huge investment in databases and training that makes the switching cost grow far beyond what it might have been.

Pilot Programs

Of the 200 responding companies with CSS, eight out of ten are using or have used a pilot test as a preliminary stage before complete deployment to the entire sales force. (Sixty-three companies reported currently being in the pilot program phase.) Sixty percent of the operational group tested all applications planned when they began their pilot programs, while 14 percent used only selected applications. The remainder did not specify which applications were tested.

Pilot programs are sometimes designed to be limited to a region or restricted to certain segments of the entire sales force. Occasionally, the pilot test will begin with regional managers or others with higher level duties than those of salespeople, while other programs have begun with the lowest level personnel and migrated upward as testing progressively removes the "bugs" from the system. The median age of pilot programs (see Table 6) in the survey was nine months.

Once the pilot program has started, it generally takes less than a year to fully deploy the CSS to the entire sales force (see Table 7). Some "pilot" programs are lengthier than others, since some companies consider the CSS to be in a pilot stage if it is deployed to less than the entire sales force, even if it has been working satisfactorily for many months; or if the total complement of applications has yet to be put into service.

Table 6: Age of Pilot Programs

	Age
25th Percentile	5.5 months
Median	9 months
75th Percentile	12 months

Table 7: Time Needed for Full Rollout of CSS

	Time
25th Percentile	5-6 months
Median	10-12 months
75th Percentile	21 months

For the most part, pilot programs serve as a "shakedown cruise" for full CSS deployment. Rarely are the programs canceled at the end of the pilot program. The decision to test a CSS, involving the purchase of software and hardware and training activities, is not a minor undertaking, so considerable deliberation usually precedes the decision. A decision against continuing deployment after a successful pilot program would likely involve constraints other than system effectiveness, such as lack of funds or an impending reorganization.

Reassessing Program Procedures

One consumer products company spokesman reported that after experience in developing and implementing its CSS, he learned that they had under-

Table 8: Systems Modifications - Operational Group of Companies

Modifications	*Percent of Companies*
Enhanced performance or capabilities	17
Improved or upgraded hardware	14
Made system more user-friendly	9
Refined or improved customer data	8
Upgraded software	7
Revised reports	4
Improved shipping information	4
Better or more product information	3
Improved databases	3
Improved communications	2
Improved budgeting or forecasting	2
Completely revamped system	2
Continuous, ongoing improvement	2
EDI	1
Competitive intelligence	1
Improved security	1
No answer	36

Base = 138

Table 9: Reasons for Switching Computers

	Number of Companies
Needed better performance, more power	14
To update technology	8
Switched from desktops to laptops	5
Switched from terminals to PCs	4
Needed lower cost units	3
Switched from IBM PCs to PC clones	3
Other reasons	7
No answer	25

Base = 69

estimated ongoing costs for such things as updated hardware and software and repairs when units are out of warranty. Problems emerged in some companies, in that opportunities for training presented themselves sporadically, or not soon enough after improvements became available to be able to implement them.

Several companies reported that greater efforts should have been made to get top management involved in understanding the systems and their capabilities, in order to get better system acceptance.

Modifications to Systems

Nearly two-thirds of the companies with operational systems have modified them in some fashion (see Table 8). For example, performance needed upgrading to suit new uses or a variety of users. In others, original equipment was worn out or provided marginal performance.

One-third of the combined operational and pilot groups of companies have switched to computers different from the units originally specified for the systems. The improvements sought are shown in Table 9.

Practical Pointers for Developers and Users of New CSS

If getting the new CSS up and running quickly has a high priority, the best bet is to buy the software or the entire system instead of developing it in-house.

Task forces work well to get the project moving; most companies use them. Get the sales force thoroughly involved in setting performance goals and be sure the system accommodates the way in which they do their jobs. To help assure user acceptance, get human resources and training people involved at an early stage.

Demand that new systems serve your company's way of doing business. Don't feel obligated to force your operation to fit one particular system because the vendor says "it has worked well for other companies." But don't expect a perfect fit between a vendor's system and your company's needs without adjustments. Don't expect a new CSS to succeed if it must overlay a problem-ridden sales organization. Fix problems first, and don't expect the new system alone to cure structural and organizational weak points. Expect the CSS to do some or all of the top five activities: using databases, checking orders, managing customer accounts, communications, and forecasting and budgeting.

Don't set your system goals by the ones that may have been important in the past or goals of other companies — carefully determine your real objectives.

Be prepared for higher than budgeted costs. Realize that projected systems costs can exceed budgets after a year or two of use in the field (especially if hardware warranties have expired), because active field usage may cause greater than expected wear and tear on equipment.

Don't expect system prices to fall significantly. While price-performance ratios for computer systems have improved, high performance is not cheap—and a "plain vanilla" system may not suit your needs. The price-benefit equation today more often means that you get more performance per dollar, and capable systems increasingly demand more power. Some CSS user companies have found that even two-year-old computers are worth replacing to get superior performance. Additional equipment such as cellular telephones and facsimile machines may benefit some CSS users.

Sales force productivity is obviously important but ripple effects can spread the benefits around, so an improvement anywhere in this chain may boost organizational performance. Today's sales mission succeeds to the degree that it integrates marketing and sales functions. For example, salespeople who use CSS may actually spend more time planning and forecasting (and less time "selling") because they now have proper computer tools, but this may save reworking by others and improve data accuracy. In another example: direct marketing campaigns may become more productive because field salespeople spend more time collecting and entering accurate information about prospects and customers on their computers.

Expect to make changes during the life of the system. One half of the companies surveyed experienced "serious" shortcomings with their CSS at one time or another. If the CSS doesn't change through extended use it probably isn't responding properly to your business.

Be suspicious of the belief that computer systems promote sterile manufacturer-customer relationships—it doesn't have to happen. In services especially, customer relationships can become responsive and personal without appearing canned or artificial. "Contrary to much popular dogma, well-managed service technologies can simultaneously deliver both lowest cost outputs and maximum personalization and customization for customers." [1]

Expect CSS payoffs in "hard" and "soft" dollars within two years. In about a year it should be clear where the system is heading. Salespeople should have accepted and used it, and at least some early gains should be apparent. Don't try to save money by skimping on training. It's false economy to spend hundreds of thousands of dollars on hardware and software, and then to neglect training, which strongly shapes users' attitudes and willingness to learn and use the systems. Users can make or break systems no matter how soundly they're designed.

Carefully balance your need for CSS security against potential benefits of sharing access to some databases with customers. Twenty percent of the responding companies do this now. If your company uses distributors, think about how they might benefit from your system and how they might adapt it for their use. But try to offer real benefits and don't expect an easy sell or a blank check from them—they may have already heard a similar story from your competitors.

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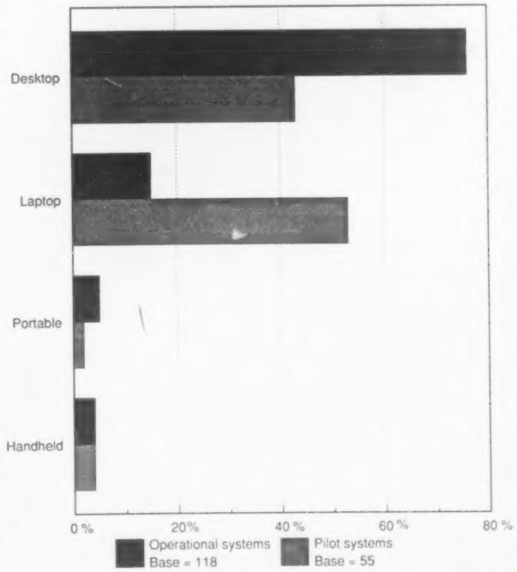
[1] James Brian Quinn and Penny C. Paquette, "Technology in Services: Creating Organizational Revolutions," *Sloan Management Review*, Winter, 1990, p. 67.

Characteristics of CSS

The newer, pilot programs are much more likely to use laptop computers than are older fully operational systems (see Chart 4). Fifty-three percent of the pilot operations use laptops compared to only 15 percent of the operational group. (One source estimates that 37 percent of all laptops are used in field sales.[7]) Three-fourths of the operational companies use desktop units, two-thirds of which are personal computers and one-third of which are terminals.

While not used by a large group of responding companies, handheld computers have grown steadily in performance capabilities from the limited-purpose UPC readers they formerly were. Many now are programmable in common high-level languages such as C or Pascal; have eight-line display screens; run MS-DOS operating systems; and have internal modems and multiple input-output ports. Handheld computers are especially favored for situations requiring high mobility: Frito-Lay route delivery drivers; Federal Express drivers tracking packages; and Otis Elevator service personnel. Motorola and IBM have just announced a joint venture to produce and market handheld computers that use radio communication with mainframe computers, thus eliminating the need for telephone linkages.

Chart 4: Type of Computer Used by Salespeople



As the array of computers and capabilities grows and CSS user companies gain experience, it becomes less likely that one model of computer will satisfy all needs. For instance, sales managers may use full-featured laptops that can manage the large databases resulting from combining data from sales territories for reports or planning; salespeople calling on stores may use handheld units mainly for entering data and may get output from desktop units back at the office; researchers at headquarters may use faster, more powerful desktop units for combining company data with proprietary market share databases, running large spreadsheet programs, and accessing the mainframe computer. Such an array of hardware choices will help to satisfy different needs and conceivably prevent a company from overspending on computer capabilities that are not needed.

Peripheral Equipment Used with CSS

Desktop computers are more likely to use printers than are laptop computers—75 percent reported using printers with desktops, only 37 percent with laptops (see Chart 5). And four out of every 10 installations had a facsimile machine available.

Age of Systems

The median age of operational CSS was three years; of pilot systems, nine months (see Chart 6). Some of the

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[7] *Business Marketing*, January, 1989, p. 60.

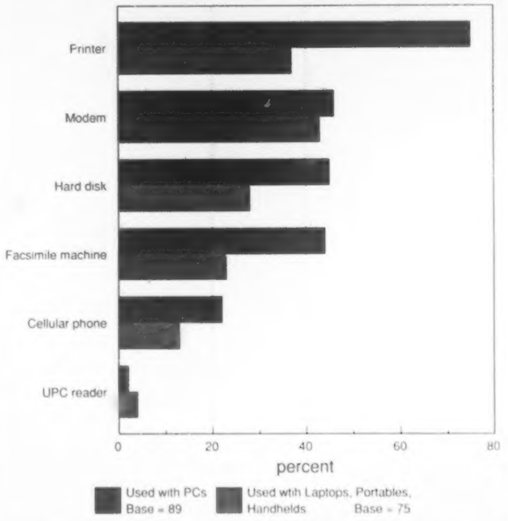

Chart 5: Computer Peripheral Equipment Used

operational systems were more than eight years old. Surprisingly, an estimated one-half of the CSS in the current survey did not even exist at the time of the 1986 Conference Board survey.

Exclusive Access to Computers

Only one-third of the present system users have computers exclusively for their own use. In the future another third will have their own computers and only one out of three companies will require users to share computers.

CSS Cost per Salesperson

Companies reported the median cost of CSS per person at $5,000, including hardware, software, training, and upgrades (see Table 10). The 1986 CSS survey reported the cost at $5,000-7,000. Even at the $5,000 figure, today's computers offer greater performance for the money. (The reader should bear in mind that this question was asked of a sales or marketing executive who may or may not have had the most accurate cost data on the systems.)

Table 10: Sales System Cost Per Salesperson

25th Percentile	$ 3,000
Median	5,000
75th Percentile	10,000

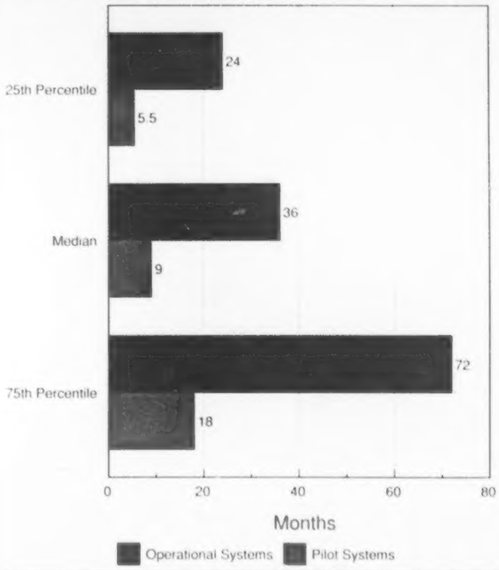

Chart 6: Age of Systems

CSS Linkages to Distributors

Some CSS are closely tied to distributors and reach their full effectiveness only when this linkage is functioning well. For example, a small company selling specialized industrial equipment developed its own CSS and now offers it for sale to its distributors, along with training for the distributors' salespeople. Since all of the company's sales are through its distributors, it is essential that all salespeople use the CSS for the advanced kinds of marketing it wants to pursue. The company can now construct databases from key customer information supplied by the distributors and then execute precisely targeted mailings announcing new products. To assure coherent communications and eliminate misunderstandings, the display screens that distributors see on their computers are identical to those seen in the manufacturer's sales office.

Would a Company Use the Same CSS Vendors?

One dimension of companies' satisfaction with CSS is whether they would use the same vendors again if starting from scratch. More than half the total respondents said they would use the same vendor; and nearly two-thirds of the pilot group agreed. It might be inferred that the pilot group of companies, with their nine months (on average) of field experience (compared to the operational group's three years), have not operated their systems long enough to reveal all the CSS's weaknesses. An alternate possibility is that the "undecided" segment of the operational group has probably experienced growth and unanticipated needs and changes which could progressively degrade even an initially sound system.

Applications Planned

In manufacturing companies (see Table 11), customer account management is now the most used application, and another 22 percent of responding companies plan to implement it. Prospecting, on the other hand, is done by only 26 percent of the manufacturing companies, and another 16 percent plan to do it. Nearly any application of moderate usefulness will apparently grow to be used by at least half of all companies with systems.

This also means that the average number of applications for most companies will grow. (Operational CSS for each reporting company now run, on average, 10 applications.) Some of the planned applications increase the usage of already popular routines, while others will substantially increase the use of applications now only slightly used. Competitive intelligence is at the top of the list for planned applications but it is used by only one quarter or less of companies responding. The work done by the sales force in competitive intelligence is only one part of the monitoring effort in most companies, so it would be inappropriate to judge the scope of the activity by the scale of the sales force effort alone.

Table 11: Applications Planned but Not Yet in Use by Manufacturing Companies

Applications	*Percent of companies*
Competitive intelligence	27
Database activity	26
Communications/electronic mail	24
Forecasting	24
Reporting expenses	24
Time management, scheduling	24
Checking inventories	23
Entering orders, checking orders	22
Product information	22
Customer account management	22
Presentations to customers	22
Reporting sales calls	21
Graphics	18
Budgeting	18
Prospecting	16
Analyzing customer needs	16
Spreadsheets	15
Retrieving or preparing prices	15
Word processing	14
Base = 227	

Table 12: Applications Planned but Not Yet in Use by Services Companies

Applications	*Percent of Companies*
Customer account management	26
Analyzing customer needs	24
Competitive intelligence	24
Prospecting	24
Time management, scheduling	22
Reporting sales calls	19
Entering orders	17
Graphics	17
Presentations to customers	17
Database activity	15
Product information	15
Reporting expenses	15
Retrieving or preparing prices	15
Word processing	15
Budgeting	13
Spreadsheets	13
Communications	11
Checking orders	9
Forecasting	7
Base = 54	

In service companies (see Table 12), two of the most often used applications, customer account management and analyzing customer needs, are also the top ranking uses planned for the future. This seems to reflect still greater efforts at customer focus.

Database Access

Most of the CSS allow salespeople to access sales and marketing databases, but many also allow access to other company databases and external proprietary databases such as A.C. Nielsen and Dow Jones News/Retrieval (see Chart 7). There are few differences between the operational, pilot and planning companies, except that more than two-thirds of the companies now planning their systems intend to allow salesperson access to manufacturing databases—an increase over the current level of access. This may be evidence of an emerging trend toward cross-functional activities which are a necessity for true integration of company activities.

Future database access (see Table 13) for the salesperson is not significantly different from current access—that is, much the same kinds of databases will be used.

About one in five manufacturers allow selected customers to access internal marketing or other databases. Scarcely any companies allow all customers this privilege.

Chart 7: Databases Accessible to Salespeople

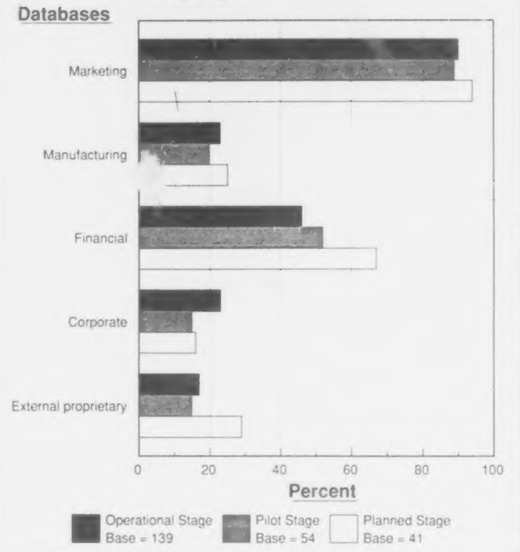

Table 13: Databases Salespeople Can Use In The Future

Database	*Number of Companies Planning to Use*
Financial	6
External proprietary	6
Sales and marketing	5
Corporate	4
Manufacturing	4
Client-prospect	3
Customer profiles	2
Competitive activity	2
Other	7

Do CSS Automate Selling?

Just as the use of computers in office work came to be called Office Automation years ago, a similar rationale describes computerized sales support systems as sales force automation. No term does harm, of course, as long as it is generally understood, but "sales force automation" does not seem to convey accurately what is done by CSS. For one thing, the truly "automated" elements of selling are most obviously the non-selling tasks such as word processing, spreadsheets, schedule keeping and others—which are supportive but ancillary, not at the core of selling. For another, the most demanding and creative aspects of selling are, in fact, listening, consulting, and persuading—activities that are more art than science and less susceptible to automation. A salesperson can conceivably earn an A-plus on the "automated" selling tasks and still perform poorly as a successful sales representative. Finally, there is little that is automated about the selling that takes place.

In the end, salespeople make a CSS succeed or fail by their willingness to use it and make it work—their behavior that can't be thought of as "automated."

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